

LATE NEWS

Iran Arrives

Iran Arrives (Reuters) — Hussein of Jordan arrived in Baghdad on Tuesday, and Iranian sources said he will make a new attempt to settle Iraq and Syria, ruled by the wings of the Arab Socialist Party.

Iranian news agency a report from Amman, an, that the king would talks with President Saddam Hussein of Iraq on the Iraq war and on develop- in the region in the light of John Paul's recent calls.

Unit in Poland

Unit in Poland (AP) — Nine dissidents announced they had formed a human rights group called the League of the Defense of Human Rights. Observers said the group was likely to be successful.

SPECIAL TODAY

THE NETHERLANDS

Three decades ago, the Netherlands was the key to the health of Dutch economy, helping it for one of the most successful welfare systems in the West. But revenues are dry down now, special report, Pages 9-14

araid Hollenberg, a

est Berlin immigration official, was shot and wounded Tuesday as he left his home. Page 6

GENERAL NEWS

President Aquino warned cabinet members to resist to her peace overtures or war. Page 2

The famine threat in Sudan sharply was exaggerated, officials say. Page 6

Drugs and corruption have won a wedge between Mexico and the U.S. Insights, Page 5

TS/LIBRARY

Un Balle in Mischers' is an as overly safe "new" edition. Page 7

SINCE/FINANCE

Keenness Group PLC agreed all some soft-drink business to a joint venture. Page 15

Stiches persisted on the day of London's "Big 6." Page 16

U.S. Will Pay UN \$100 Million, More Than Was Expected

By Elaine Sciolino
New York Times Service

UNITED NATIONS, New York — The United States has agreed to pay the United Nations \$100 million, more than was expected, to help pay the UN's budget for 1987.

The contribution is significantly higher than was forecast after dramatic congressional cuts. These were expected to slash the U.S. contribution by 70 percent, to less than \$50 million.

But in recent weeks U.S. officials have been working to secure a campaign in Congress to reverse the cuts, arguing that the United Nations was a key forum for U.S. foreign policy interests.

Mr. Pérez de Cuellar has said the United Nations needed at least \$120 million from the United States to meet fixed costs, mostly salaries, until the end of the year.

The U.S. decision, conveyed Monday in a letter from Mr. Whitehead to Mr. Pérez de Cuellar by the U.S. representative, Vernon A. Walters, also indicates that the administration is considering the request of further appropriations from Congress.

The UN spokesman, François Guizot, said.

Neither the U.S. mission nor the United Nations would make the letter public, but an American official said it emphasized the need for change if the administration is to appropriate more money this year.

Several diplomats and UN experts praised the announcement as an indication of good will on the part of the administration.

The French representative, Claude de Kervadec, said: "Obviously we wish the full amount would be paid. But this is a wise decision and will facilitate the negotiations for reform proposed by the Group of 18."

The Group of 18 is an intergovernmental committee of experts that has submitted a proposal for wide-ranging changes to this General Assembly, including an overall staff cut of 15 percent, savings in budgeting. The assembly is expected to vote on the proposal before it dissolves in December.

Many Third World countries have privately said they will not consider approving budgetary reform, which they consider an attempt by the rich industrialized nations to dominate the United Nations, unless the United States pay at least \$100 million of its contribution. Some Western and Third World diplomats said they believed the American commitment of that amount reflected a push by the Reagan administration to get the changes passed.

Mr. Pérez de Cuellar, who has accused the United States of violating its treaty obligations and crippling the United Nations by withholding much of its contribution, had no comment on the announcement.

The United States is required to pay 25 percent of the regular UN budget every year. U.S. officials said they had repeatedly that they do not want to lower this percentage, but that they want the United Nations to have a larger voice in UN operations.



Graca Santos, widow of the Mozambican president, with the Politburo member Marcelino dos Santos at Mr. Machel's funeral in Maputo. Tens of thousands of people attended the ceremony, in which officials pledged to build a 'socialist motherland' in his memory.



Mozambican soldiers were among the mourners.

Mozambicans Bury Revolutionary Hero

By William Claiborne

MAPUTO, Mozambique — Mozambicans buried their revolutionary hero Tuesday and vowed to build a prosperous socialist motherland on his dreams.

Tens of thousands of Mozambicans turned out in a chill rain to watch a casket bearing the coffin of President Samora Machel as it was pulled behind an army tank to a place of honor commemorating the martyrs of the revolution.

There, Mr. Machel, who died Oct. 19 at the age of 53 when his presidential jet crashed just inside the South African border, was interred before senior officials from around the world.

The final tribute to Mr. Machel was an emotional speech that reflected the deep respect and love that the people had established with his people through his charisma and his close personal contact in the streets, in factories and in farm fields turned brown by drought.

Major General Marcelino dos Santos, ranked second in Mr. Machel's ruling Frelimo party, wept during his eulogy at City Hall. Waiting mourners collapsed, and soldiers in camouflage battle fatigues wept openly.

"In the words of our children — 'the flowers that never wither' — as you used to call them — your name shall be remembered with infinite tenderness," General dos Santos said. "Eventually you will be Papa Samora."

Tracing the life of the farm boy from Gaza province who studied abroad in colonial Mozambique and then guerrilla warfare in Algeria and Tanzania, General dos Santos called Mr. Machel a "noble fighter" who "fell in the struggle against apartheid."

It was an oblique reference to See MACHEL, Page 2

New U.S. Orders For Arms Talks: Focus on Missiles

By Lou Cannon

WASHINGTON Post Service — The Reagan administration has sent new instructions to its arms negotiators in Geneva as they prepare to meet with Soviet representatives there, the chief White House spokesman said Tuesday.

"We're prepared to place on the table the issues from the president's meeting in Iceland" with the Soviet leader, Mikhail S. Gorbachev, the spokesman, Larry Speakes, said aboard President Ronald Reagan's plane en route to a campaign appearance in Columbus, Georgia.

"We're prepared to take up where we left off at the end of the Iceland summit," he said. "We're ready for serious discussion. We think there is opportunity for progress based on the foundations laid in Iceland."

Mr. Speakes was commenting on statements by White House sources Monday that the administration had approved a directive to U.S. negotiators that incorporates sweeping proposals discussed in Iceland for eliminating all ballistic nuclear missiles within 10 years and all medium-range missiles in Europe.

A White House official said Monday that the instructions had been approved "in principle" at a meeting of a National Security Council planning group attended by the president.

The administration, the official said, was united on the main points of the proposal discussed by Mr. Reagan and by Mr. Gorbachev on Oct. 11 and 12 in Reykjavik.

The official said this included a proposal by Mr. Reagan to adhere to the 1972 Anti-Ballistic Missile Treaty for 10 years before displaying any space-based missile defense system, such as that envisioned by his Strategic Defense Initiative.

The directive approved Monday came after disputes within the administration and among allies about the wisdom of eliminating ballistic missiles within 10 years.

The Joint Chiefs of Staff were said to be skeptical about the military implications of neither superpower possessing ballistic nuclear missiles, a concern that officials

said was shared by British and West German officials.

But officials said Monday that the chiefs had accepted "the broad principle" of Mr. Reagan's proposal. They said there would be consultations with allies before final instructions were issued.

The administration's action came on a day when Mr. Gorbachev accused the Reagan administration of "gross misrepresentation" in its accounts of the Reykjavik meeting.

White House officials in turn accused the Russians of misrepresenting Mr. Reagan's position.

Immediately after the meeting, American officials said that the U.S. position called for the elimination of nuclear weapons within 10 years, a statement repeated by Mr. Reagan upon his return.

Later, the president and other U.S. officials said that, while Mr. Reagan had discussed doing away with all nuclear weapons, he actually

See ARMS, Page 2

U.K. Veto Bars Syria From EC Aid

By Colin McIntyre

LONDON — Britain announced Tuesday that it had vetoed a European Community aid package for Syria, which would have been worth \$140 million to protest alleged Syrian involvement in an attempt to blow up an Israeli airliner.

Geoffrey Howe, the foreign secretary, told the House of Commons: "There can be no question of the United Kingdom agreeing to further financial assistance for Syria in return for its failure to be able to obtain the support of other EC members at a foreign ministers' meeting in Luxembourg for joint action against Syria. Such action would have included a ban on arms sales and the temporary withdrawal of ambassadors from Damascus."

"Yesterday's proceedings went some way — but by no means as far as the House would have wished — to send the Syrian government a clear message that its behavior has been intolerable," he said.

The ministers failed to agree even on a statement of collective outrage over the reported Syrian involvement when Greece refused to back it.

Mr. Feldman said that the talks in Luxembourg were complicated by the absence of the French and West German ministers, who were attending a meeting of President François Mitterrand and Chancellor Helmut Kohl in Frankfurt, and the fact that Spain had sent only a junior minister. Italy's foreign minister also was absent.

France and Italy condemned terrorism but said that the case against Syria had to be examined when the foreign ministers meet on Nov. 10.

Syria welcomed the EC decision. "European public opinion should be dragged behind the falsehoods of the British government at the Luxembourg meeting," Damascus Radio said.

Community financial protocols for the Mediterranean region, which cover a five-year period, expire on Saturday. Renewing them requires the approval of all 12 EC member nations and Britain has informed its partners that it was exercising its veto.

British officials said that aid to Syria in the expiring agreement was worth \$50 million and the package that was to come into force was worth \$100 million and more, \$50 million.

The European Commission also stopped the payment of subsidies to farmers seeking to export grain and other products to Syria, known as restitution payments, which represented an additional form of aid, the officials said.

The British move to block the money followed the conviction of Nezar Hindawi, a Jordanian, last week on charges of plotting to blow up an El Al plane in April.

EC diplomats said that although no immediate action against Syria was taken, British officials had used the usual level of political support to Israel.

An aide to Prime Minister James Chirac said that the British-proposed sanctions would have had serious consequences for seven French hostages in Beirut and could lead to a new outbreak of bombings in Paris and more than 100 persons died and more than 500 were injured.

See EC, Page 2

Cuts Will Shut Some U.S. Missions Abroad

By John M. Goshko

WASHINGTON Post Service — The State Department, forced by Congress to accept sizable cuts in its operating budget for fiscal 1987, is looking for a round of austerity moves that department officials say will include the elimination of 700 jobs.

Under new rules, overtime work and foreign travel will be sharply reduced, and as many as 10 consulates and smaller embassies will be closed.

That, the officials said, is only a preliminary estimate of the reductions, including the United Nations, which will be made in the department's operations as a result of cuts approved by Congress.

Congress scaled back the budget for diplomatic expenses and authorized \$1.4 billion from the administration's \$1.538-billion request. In addition, Congress gave the department only a fraction of the money sought to enhance the security of overseas posts through improvements and new construction.

Laborers also refused to appropriate enough money for the United States to pay fully its assessed dues to international organizations, including the United Nations, which will be made in the department's operations as a result of cuts approved by Congress.

Secretary of State George P. Shultz said that such reductions would create a "perception of the United States withdrawing from the world." Yet they actually represent what department officials say is "a best-case scenario" of how the damage to U.S. foreign policy can be kept to a minimum.

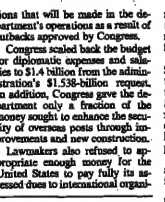
Since Oct. 17, when Congress appropriated the State Department's fiscal 1987 spending bill, the department has found itself facing unexpected new expenses, such as the cost of replacing the U.S. Embassy in El Salvador, which was heavily damaged Oct. 10 by an earthquake.

In addition, it will have to send large numbers of U.S. support personnel to replace more than 200 Soviet workers withdrawn by the Soviet government in a diplomatic dispute.

"We have no idea at this point of how much it will cost to restructure our operations at the Moscow embassy," Roger B. Feldman, the department comptroller, said in an interview. "And the preliminary estimates of \$70 million to replace the embassy in San Salvador are very rough and probably quite a bit below actual replacement costs."

In deciding on reductions, Mr. Feldman said, Mr. Shultz has ordered "that we try to preserve our personnel as much as possible and seek to make the biggest cuts elsewhere."

Even so, he said, the department will have to cut more than 700 employees, ranging from secretaries to veteran career diplomats, although it hopes to achieve that goal through attrition.



Goshko

regions of the country that have active rebel movements.

Bernabe Dureza, Mr. Dewi's deputy who defected to the United States in June, said he could no longer serve a government "whose primary purpose is implementing a foreign ideology and an anti-social political system."

Ethiopia, which was convulsed by a broadly based popular revolution in 1974, turned to the Soviet Union in 1977 for military help in fighting off an invasion from Somalia.

The United States, a long-time ally of Ethiopia, was asked to help but refused, finding the revolutionary government to be too left-leaning and objecting to its human rights record.

Since it allied with the Soviet Union, the government has taken firm control of the country.

Western diplomats in Addis Ababa say there is no indication that any of the country's many rebel and dissident organizations seriously threaten Colonel Mengistu.

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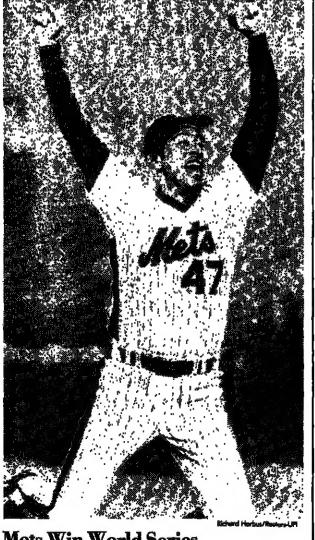
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Mets Win World Series

Jesus Orosco, relief pitcher for the New York Mets, celebrates after striking out Marty Barrett of the Boston Red Sox to end the final game of the World Series with an 8-5 Mets victory, Page 21.

er Ethiopia, Defection of Goshu Is Most Glaring

By Elaine Harden

ADDIS ABABA — The resignation of Col. Goshu Wolde of Ethiopia's foreign ministry was the most senior and, for the plan government, most embarrassing defection in an exodus of known citizens from that country.

Col. Goshu announced Monday in New York that he was resigning to protest what he called the "tyranny" of the Marxist government. Although his wife and two children are already living in the United States, Col. Goshu said he had decided whether to ask for political asylum, going abroad and denouncing the government and its policies.

Col. Goshu, 43, who served as foreign minister for four years, joins a list of highly visible defectors, the last of whom, he said, was the Ethiopian soccer player, who played for the Ethiopian national team.

Col. Goshu said that part of the reason for his resignation was that he was "being played" by the government, which he said was "being played" by the United States.

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Women marching in Manila in support of Mrs. Aquino's policy toward Communist rebels.

Aquino Warns of War if Rebels Fail to Respond to Peace Offer

The Associated Press

MANILA — President Corason C. Aquino said Tuesday that if the Communist insurgency proves unresponsive to his peace overtures it will be removed by the "drastic surgery of war."

Mrs. Aquino, speaking to a convention of about 1,000 nurses at a suburban army camp, compared the left-wing guerrilla campaign with a "lingering illness," which she said she is trying to cure through dialogue and "the promise of reconciliation."

The president, under fire from Defense Minister Juan Ponce Enrile for her peace overtures to the Communists, said that, as a Christian, she was duty-bound to save lives rather than destroy them.

"You know that an ounce of prevention is always better than a pound of cure," she said, "especially if the remedy is as bitter as pitting Filipino against Filipino."

But, she added of the insurgency, begun 17 years ago, "Should it

prove to be as incurable as a cancer, then it must be removed by the more drastic surgery of war."

In a speech Tuesday night, Mr. Enrile defended his criticism of Mrs. Aquino's policy toward the rebels, saying he was the only person in the government who was speaking out about the dangers of Communism.

"Someone has to expose" the Communist "strategy of deception so that the people shall not be misled and confused," he said as a forum organized by the American Women's Club in Manila.

Mr. Enrile said he was not motivated by personal reasons but wanted to voice the concerns of the armed forces. "Because when wrong decisions are made and instability sets in in our national life, this places the lives of our soldiers in jeopardy."

About 1,000 members of the Women's Peace Committee

and carrying banners calling on the defense chief to resign.

Before their march, the group issued a statement urging Mrs. Aquino to resist pressures to unsheathe the sword of war.

Earlier Tuesday, the former president, Ferdinand E. Marcos, was quoted as saying he could forgive Mr. Enrile for helping overthrow him as long as the defense minister fights Communism.

"I can only forgive him when he fights the Communists," he said of Mr. Enrile, a leader of the civilian military uprising that overthrew Mr. Marcos in February 1978.

The interview appeared in several Manila newspapers. The dailies said that Mr. Marcos spoke with a group of Philippine reporters

U.K. Asked EC for More Than Words on Syria, Got Just Words

By Richard Bernstein

New York Times Service

LUXEMBOURG — The Italian writer Luigi Einaudi once likened the countries of Western Europe to a bunch of "irritable men" more likely to peck at each other — or to quarrel with the United States — than to get on with the kind of unity that would enhance the Continent's strength and influence.

The failure on Monday of the foreign ministers of the 12 member countries of the European Community to agree to a set of measures against Syria despite urgent British pleading seemed a good example of the way the multiplicity of conflicting interests can stand in the way of joint European action.

The British foreign secretary, Sir Geoffrey Howe, pressed for his colleagues to agree to something other than a verbal response to what he said was direct Syrian involvement in an attempt to blow up an Israeli passenger jet in April.

"The time for words is past," a British official said Monday. "What we want is action." But words were what the British got. Eleven of the EC members look what President Francois Mitterrand of France approvingly called a "cautious" approach to

the Syrian problem. They expressed "understanding" of the British diplomatic break, but they rejected all of the specific British proposals for common action, such as temporarily withdrawing their ambassadors from Syria or restricting the operations of the Syrian national airline in Europe.

The meeting showed the Europeans in

what has by now become a familiar light: expressing the need to wage a force common

against terrorism, but immovably hesitant to use the great prestige of a united European

to get on with the kind of unity that would enhance the Continent's strength and influence.

The Greek foreign minister, Karolos Papoulias, representing the one country that rejected even verbal support of Britain in the ministers' final declaration, said that Europe should not "isolate" itself from Syria without

definite proof that Syria was a "terrorist state."

The British, a French official said, had asked for "understanding" from their community partners and the EC was willing to show understanding. Beyond that, the offi-

cial said, each country was bound to preserve its own freedom of action.

There are several countries in this. First, even before Britain's proposed partners in Europe refused collective action, the United States and Canada had already done so. Britain was asking, withdrawing their ambassadors from Syria.

More important perhaps, the caution shown by the Europeans made it difficult for the stronger members that the Europeans took to they faced another crisis — when the United States and Canada had already done so. Britain was asking, withdrawing their ambassadors from Syria.

During three foreign ministers' meetings last April, both before and after the American raid against Libya, the European members did many of the things against Libya that they refused to do against Syria.

The Europeans also agreed at the time to apply similar measures against any other state determined to be supporting terrorism, a provision that led the Dutch foreign minister, Hans van den Broek, to declare the set of measures "a signal to any other countries that might engage in similar activities."

That could still turn out to be the case. The Europeans agreed to study the question of

Syrian involvement further and to meet again on Nov. 10 to decide whether to take

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NEWS ANALYSIS

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MACHEL: Mozambicans Bury a Revolutionary Hero

(Continued from Page 1)

suggestions in the press in some black African nations that Mr. Machel may have been the victim of assassination by South Africa. No Mozambican official, however, has publicly blamed South Africa for bringing down Mr. Machel's plane, in which 35 other Mozambican and Soviet officials died.

"You always fought constantly against apartheid," General dos Santos said of Mr. Machel before a gathering of mourners that included Oliver Tambo and Jose Siso, leaders of the African National Congress, the main guerrilla organization battling the white government in Pretoria.

"You understood apartheid as a problem for all humanity because you perceived that what is at stake in South Africa is the very definition of humanity. You had a deep longing for the racist system."

While noting the strain of the Marxist government's 10-year guerrilla war against rightist insurgents of the Mozambican National Resistance, General dos Santos pledged, "We swear that we shall build the Mozambique of your dreams, a developed and prosperous country, the socialist Mozambican motherland."

The official delegations of Mozambique ranged from President Regan, the daughter of the U.S. president, to Yasser Arafat, the

chairman of the Palestine Liberation Organization, to Raul Castro, the brother of the Cuban leader.

The Soviet Union was represented by Gaidar A. Alybay, first deputy prime minister, and a Politburo member who is responsible for Soviet relations with Third World countries.

A center of attention was the Reverend Jesse L. Jackson, the former U.S. presidential contender, who in August made a successful swing through the nations bordering South Africa and properly himself as a liaison between black Africa and U.S. public opinion.

When Mr. Jackson entered the public ceremony, Mr. Machel, now 69, was in a display of respect. When he arrived, he was greeted by a mob of foreign journalists and photographers.

Flight Recorder Found

South Africa is resisting a Soviet demand that the flight recorder of the Soviet jet in which Mr. Machel was killed be turned over to investigators, Foreign Minister R.F. Botha said Tuesday as reported by Agence France Press in Pretoria.

At a news conference Mr. Botha said that South Africa had asked for the help of a U.S. expert in investigating the crash of the flight recorder, commonly known as the "black box," could

for technical reasons be decoded only by Moscow.

Mr. Botha said that Pretoria wanted the decoding done somewhere else "in the interests of all."

In Moscow, a Foreign Ministry spokesman said Tuesday that his government was willing to allow experts from the International Civil Aviation Organization to be present at the decoding of the flight recorder.

Maputo's Rebels To Fight Harare

Rebels — Rebels of the Zimbabwe National Liberation Army said Tuesday that they would strike against military and economic targets in Harare.

The announcement was made in a statement by Afonso Maseko, the leader of the resistance, to news agencies.

Mr. Maseko said the declaration was to realize for a view by Prime Minister Robert Mugabe on Sunday that Zimbabwe would fight to the last man from its own territory.

Senator Richard G. Lugar of Indiana, the Republican chairman of the Foreign Relations Committee, was traveling in the Middle East on Monday and could not be reached for comment.

He referred to an agreement signed in July by the council and the Soviet Academy of Sciences that called for the exchange of data from seismic stations in the United States and the Soviet Union in an effort to demonstrate a technique for verifying compliance with a comprehensive test ban.

Russians Reject Offer

R. Jeffrey Smith of The Washington Post reported from Washington: A group of Soviet scientists has rejected a U.S. offer to develop new methods of verifying an existing nuclear test ban treaty by exchanging data from seismic stations in the United States and the Soviet Union in an effort to demonstrate a technique for verifying compliance with a comprehensive test ban.

Instead, the scientists will visit the United States and use private guests of the group, the Natural Resources Defense Council, to complete arrangements for installing seismic monitoring stations 100 miles (160 kilometers) from the Nevada site, said a council scientist, Thomas Cochran.

The Soviet decision means that an unofficial exchange of seismic data about the nuclear test ban will proceed despite "attempts to disrupt it" by the Reagan administration, Mr. Cochran said Monday.

New York Times Service

WASHINGTON — A senior White House official said that the Reagan administration was not planning to accept the Soviet offer to exchange seismic data from stations in the United States and the Soviet Union in an effort to demonstrate a technique for verifying compliance with a comprehensive test ban.

This was the most explicit in a series of admissions by the White House that the Soviet side had been quoting Mr. Reagan essentially correctly. U.S. officials at first had

WORLD BRIEFS

Belgian Coalition Wins Crucial Vote

BRUSSELS (AP) — The government easily survived a vote of confidence Tuesday in the legislature on its handling of a protracted hostage situation that threatened to bring down the center-right coalition during the past few weeks.

The Chamber of Representatives voted 107-74 to support the government. Last Friday, the Senate also voted to support the government's handling of the dispute.

The Social Christian and Conservative coalition parties, each split into French- and Dutch-speaking factions, agreed to a truce last week, but said they would continue their attempts to settle the question of Belgian French-speakers can be mayor of a group of villages in a part of Belgium that is officially Dutch-speaking.

Iran Will Let Red Cross Visit POWs

GENEVA (Reuters) — Iran will allow a Red Cross team to visit 10 captured Iranian and Red Cross officials said Tuesday.

The Iranian Consulate in Geneva has prepared 10 visas for the delegates, a Red Cross spokeswoman said. The inspection would be the first by the International Committee of the Red Cross since it was barred from Iran in October 1984 after witnessing a prison riot. Since then, an official at the Iranian Foreign Affairs Ministry, said later that Iran had rejected Iraq's proposal for a complete exchange of prisoners.

"It cannot be done at this stage," Mr. Nasiri said. "The two countries are still at war." Foreign Minister Tariq Aziz of Iraq announced Monday night in Baghdad after returning from Geneva that Iraq had suggested an exchange of all prisoners under the supervision of the International Committee of the Red Cross and the United Nations.

Lebanese Group Kidnaps 4 Syrians

MASHGARA, Lebanon (Reuters) — Members of the pro-Iranian group Hezbollah, or Party of God, seized four Syrian soldiers Tuesday in the Bekaa Valley in eastern Lebanon, residents said.

They said the four were taken to a village in the Bekaa Valley. The group in reprisal for the arrest earlier Tuesday of two Hezbollah men as a joint Syrian-Lebanese military checkpoint.

Lebanon's official National News Agency also reported the kidnapping, but neither Syrian nor Hezbollah officials were immediately available for comment.

U.S. Lawyer Helps Jews in Moscow

MOSCOW (NYT) — An American Jewish lawyer received unusual permission to defend five Soviet Jews who were arrested during celebrations outside the main Moscow synagogue.

Samuel Pinar, an international lawyer who practices in New York and Paris and often is involved in dealing with the Soviet Union, said Monday that the five men were fined 50 rubles (\$70 each) and released after being held for five hours with judges.

Mr. Pinar was in Moscow with a delegation of the American Jewish Congress, but the arrest and the trial were not announced until Monday night, when police sought to end the synagogue festivities, a music broke out and the five men were taken to court.

On Monday, he said, a group of young Jews asked him to go to the court where the men were to appear. He did so and ultimately helped negotiate the fine and release.

Group of Israelis to Meet PLO Aides

JERUSALEM (Reuters) — Israeli Jews who favor separate Jewish and Palestinian states are to meet representatives of the Palestine Liberation Organization in Romania next month, organizers of the meeting said Tuesday. The meeting is scheduled for Nov. 6 in Bucharest.

The Israeli organizers said they were surprised that news of the gathering appeared in a Kurdish newspaper and were taken aback to learn that a top PLO official, Shafiq Khalaf, also known as Abu Hani, might take part.

The presence of Mr. Khalaf, believed in Israel to have headed the Black September guerrilla group responsible for attacks on Israeli civilians in 1970, might result in some Israeli condemning their participation, he organizers said.

Sikhs Kill 7 Persons in Punjab State

AMRITSAR, India (AP) — Sikh gunmen killed at least seven people on Tuesday on Punjab state, the police said.

A member of the Chikhan leftist group that said it tried to kill President Augusto Pinochet last month has announced that all the attackers were still free and would try again. Roberto Toranzo, a spokesman for Manuel Rodriguez Patriotic Front, said in Brussels that five men arrested this week in Chile were not involved in the attack.

Alghar guerrillas killed 35 Soviet soldiers in an attack on a helicopter in Afghanistan Tuesday, said Tuesday's Canberra dispatch. The regime, Western diplomats said Tuesday in Islamabad, Pakistan, said the rebels attacked the regime's base, 19 as it was leaving Afghanistan as part of the publicized withdrawal of 8,000 Soviet troops.

Moscow will continue to seek fishing agreements with South Pacific nations despite the region's recent tuna agreement with the United States. A Soviet Embassy official said Tuesday that Canberra, Australia, the 200-million-ton fishing sector was signed last week.

The U.S. Treasury Department confirmed Tuesday that the U.S. federal budget deficit reached a record \$202.7 billion in fiscal year 1986. The deficit came to \$211.9 billion in 1985, the previous record.

Henry Hocking in Haiti on La Croune Island has killed more than 100 people, including a priest, the director of the state Disaster Agency said in Port-au-Prince.

EC: U.K. Vetoes Syrian Aid Program

(Continued from Page 1)

injured in terrorist attacks last month.

To take immediate measures — to lose their heads and strike brutally — would have been a policy of hard-line for a country like Israel, said Jacques Toranzo, the secretary of the European People's Party in Brussels.

Joint Security Statement

Mr. Kohl and Mr. Mitterrand said Tuesday that elimination of nuclear weapons must not be accompanied by a reduction in conventional arms. They said that the security must not be weakened by a reduction in conventional arms.

Dining Out

PARIS 1st

CARRE'S
When in Paris, look for the Martell logo. The Martell logo is a stylized 'M' inside a circle. The Martell logo is a stylized 'M' inside a circle.

LA FERME ILLANDAISE
"Wild Farm" restaurant. Located in the heart of the Parisian forest, the La Ferme Illandaise is a unique dining experience. The La Ferme Illandaise is a unique dining experience. The La Ferme Illandaise is a unique dining experience.

LA GAUDRIOLE
In the heart of the Parisian forest, the La Gaudriole is a unique dining experience. The La Gaudriole is a unique dining experience. The La Gaudriole is a unique dining experience.

PARIS 2nd

KITTY O'SHEA'S
Irish Pub. Located in the heart of the Parisian forest, the Kitty O'Shea's is a unique dining experience. The Kitty O'Shea's is a unique dining experience. The Kitty O'Shea's is a unique dining experience.

LES LESGINS DANS LE CAVARI
Les Lesgins Dans Le Cavari is a unique dining experience. Les Lesgins Dans Le Cavari is a unique dining experience. Les Lesgins Dans Le Cavari is a unique dining experience.

PARIS 3rd

MAHARAJAH
Maharajah is a unique dining experience. Maharajah is a unique dining experience. Maharajah is a unique dining experience.

PARIS 4th

KERVANSARAY
Kervansaray is a unique dining experience. Kervansaray is a unique dining experience. Kervansaray is a unique dining experience.

PARIS 5th

LE NINI
Le Nini is a unique dining experience. Le Nini is a unique dining experience. Le Nini is a unique dining experience.

PARIS 6th

LAUDMIA PAVILLON RUSSE
Laudmia Pavillon Russe is a unique dining experience. Laudmia Pavillon Russe is a unique dining experience. Laudmia Pavillon Russe is a unique dining experience.

PARIS 7th

CONGRES RUEBQUE
Congres Ruebque is a unique dining experience. Congres Ruebque is a unique dining experience. Congres Ruebque is a unique dining experience.

PARIS 8th

BASTILLE CORNER
Bastille Corner is a unique dining experience. Bastille Corner is a unique dining experience. Bastille Corner is a unique dining experience.

PARIS 9th

LAUDMIA PAVILLON RUSSE
Laudmia Pavillon Russe is a unique dining experience. Laudmia Pavillon Russe is a unique dining experience. Laudmia Pavillon Russe is a unique dining experience.

PARIS 10th

LAUDMIA PAVILLON RUSSE
Laudmia Pavillon Russe is a unique dining experience. Laudmia Pavillon Russe is a unique dining experience. Laudmia Pavillon Russe is a unique dining experience.

ARMS: U.S. Sends New Instructions to Its Geneva Team

(Continued from Page 1)

by proposed only the elimination of ballistic missiles, those that have the atmosphere during flight.

The more limited position that Mr. Reagan now says he favors was included in the directive approved by the National Security Council group. Eliminating ballistic missiles would still would have both sides with large arsenals of nuclear bombs, shells and cruise missiles.

Mr. Spokes declined Monday to recount exactly what Mr. Reagan had said to Mr. Gorbachev, but noted that "in the formal presentation and exchange of proposals between the United States and the Soviet Union, the Soviets proposed 'all strategic' and the United States took the paper and scribbled through 'strategic' and put 'ballistic'."

U.S. officials also said that a meeting between Secretary of State George P. Shultz and Foreign Minister Eduard A. Shevardnadze has

been tentatively scheduled for Nov. 6 in Vienna. The two men were expected to attend a meeting on implementation of the 1975 Helsinki agreement on European security.

Russians Reject Offer

R. Jeffrey Smith of The Washington Post reported from Washington: A group of Soviet scientists has rejected a U.S. offer to develop new methods of verifying an existing nuclear test ban treaty by exchanging data from seismic stations in the United States and the Soviet Union in an effort to demonstrate a technique for verifying compliance with a comprehensive test ban.

Instead, the scientists will visit the United States and use private guests of the group, the Natural Resources Defense Council, to complete arrangements for installing seismic monitoring stations 100 miles (160 kilometers) from the Nevada site, said a council scientist, Thomas Cochran.

The Soviet decision means that an unofficial exchange of seismic data about the nuclear test ban will proceed despite "attempts to disrupt it" by the Reagan administration, Mr. Cochran said Monday.

New York Times Service

WASHINGTON — A senior White House official said that the Reagan administration was not planning to accept the Soviet offer to exchange seismic data from stations in the United States and the Soviet Union in an effort to demonstrate a technique for verifying compliance with a comprehensive test ban.

This was the most explicit in a series of admissions by the White House that the Soviet side had been quoting Mr. Reagan essentially correctly. U.S. officials at first had

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tican, in Rare Move, plains to Critics Why Punished U.S. Bishop

by Joseph Berger
New York Times Staff Writer

YORK — The Vatican, in a rare move, has replied to the disciplining of Archbishop Raymond G. Hunhausen by issuing a four-page reply explaining the findings and explaining why he was not punished.

Archbishop Hunhausen, the 65-year-old archbishop, was the only one of the 100 bishops in the United States who was not named in the Vatican's decision to strip him of his office.

He was named in the Vatican's decision to strip him of his office. He was named in the Vatican's decision to strip him of his office.

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• Misapplied the church's law in granting communion to homosexuals.

• Permitted the regular use of a general absolution of sins rather than individual confessions.

• Permitted absolutions with homosexual overtones that violated church teachings.

• Provided courses for priests and candidates for the priesthood that were not "firmly rooted in sound theology."

The chronology was far more detailed than previous disclosures, but it contained no specific illustrations or cases.

The chronology asserts that for more than six months, Archbishop Hunhausen misinterpreted an agreement reached in December with the Vatican that he take the initiative in authorizing the auxiliary bishop, Donald Wuerl, to supervise the archdiocese.

"The bottom line," said the Rev. Richard F. McElroy, a liberal theologian at the University of Notre Dame, "is that what Archbishop Hunhausen is going to be punished for, is going on all over the United States."

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Accused Spy Arraigned in U.S.

Alan John Davies, 35, is held in court in San Francisco after being charged with trying to spy for the Soviet Union. Mr. Davies, according to an affidavit filed in court, said he wanted "to turn the government" after his discharge from the U.S. Air Force. Officials said that no classified data reached the Russians.

Bell Suggests a Prisoner Exchange Might Lead to Release of Hasenfus

By Stephen Kinzer
New York Times Staff Writer

MANAQUA — Griffin B. Bell, the former U.S. attorney general who is helping in the legal defense of an American captured while flying supplies to insurgents forces, has suggested to Nicaraguan officials that some form of prisoner exchange with the United States could lead to his client's release.

Mr. Bell, a lawyer who served in the Carter administration, gave the suggestion to Nicaraguan officials during a meeting in Managua. He said he did not know if the 19 Nicaraguan prisoners on the list were or what crimes they had committed. He said at least one was imprisoned on drug-related charges.

It was shot down last month by Nicaraguan forces as it flew arms and other supplies to rebels in southern Nicaragua. The United States has denied any government involvement.

The former attorney general said he had received the names of the Nicaraguan prisoners from the director of the U.S. prison system, who was his subordinate when he was in office. But he said he did not know if the Nicaraguan government would be interested in any form of exchange.

"I don't have any indication that that anyone on this list of 19 whom they might want," Mr. Bell said. He also said he did not know if the prisoners could legally be freed even if Nicaragua expressed interest in receiving them.

Mr. Bell appeared frustrated at the course of the legal proceedings against Mr. Hasenfus, whose plane was shot down Oct. 5. The trial is being conducted by a people's tribunal, where rules of procedure and evidence are flexible and where political factors are often paramount. Many convictions are based solely on the testimony of prosecution.

"I assume he could be convicted now on the basis of the evidence the government gave in the opening presentation," Mr. Bell said of his client.

"We're just in limbo," he said. "We are anxious to move the case along. The government is not moving it along."

There have been indications that the Nicaraguan government is considering releasing Mr. Hasenfus once it concludes that his imprisonment serves no further political purpose.

At a public meeting Sunday, President Daniel Ortega Saavedra said Mr. Hasenfus "understandably" was a victim of the United States government, like those who were sent to the U.S. Vietnam or who came back mutilated.

Mudslinging Vexes Voters in Washington

By David S. Broder
Washington Post Staff Writer

TACOMA, Washington — When Mack Liveness, 47-year-old lawyer, the electoral race in Washington state for the U.S. Senate illustrates why the content is so tight and so vicious to both sides.

"I actually think both these men are excellent leaders who ought to be involved in government," said Mr. Liveness, who is running for the U.S. Senate in 1988.

Mr. Adams, a former House Budget Committee chairman and the first transportation secretary under former President Jimmy Carter, has appeared folksy in this campaign, but often less than articulate.

The final televised debate Oct. 22 was a near rout: Mr. Adams virtually confirmed Mr. Gorton's charge that his heart and home had shifted to Washington, D.C., where he practices law. Mr. Adams stumbled when asked whether he could cite any civic or charitable activities he had undertaken in Seattle in the seven years since he left the cabinet.

If Mr. Adams has seemed slapdash to some voters, Mr. Gorton has come across as cynical to others. His smile is transformed into a near-grin on television.

Mr. Gorton contends that he has won the battle on the test drilling, but Mr. Adams counters that the delay is temporary. So the issue has turned into one more test of credibility for candidates whose tactics have much to do with their reputations.

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President Ronald Reagan campaigning for Senator Slade Gorton of Washington, right, at a fund-raiser in Seattle.

Gorton and Adams have "been so personal and negative in this campaign, it turns you off." — Mack Liveness, Tacoma lawyer

CAMPAIGN BRIEFS

Unions Lead Cuomo Contributors

NEW YORK (NYT) — Unions, real-estate developers and financial houses made up nearly half of the major contributors to Governor Mario M. Cuomo's campaign treasury, according to an analysis of his financial reports over the last four years.

Twenty-five of 134 contributors of \$10,000 or more were unions, the largest single group. The financial statements detailed his collection of \$12 million since he defeated Mayor Edward I. Koch in the 1982 Democratic gubernatorial primary before he won his first term as governor. Of the \$12 million, \$4 million was used for the 1982 campaign.

Delay and Veto of Water Bill Protested

WASHINGTON (NYT) — Some Democrats in Congress and environmentalists are complaining that the secretary of the Senate, who works for the Republican majority leader, Bob Dole of Kansas, deliberately delayed sending water purification legislation to the White House so that President Ronald Reagan would not have to veto it before the election on Tuesday.

The Democrats say a veto before the election might have cost Republican candidates votes. The White House had threatened a veto, saying the \$18 billion provided for sewage treatment projects was too much. But the Republican majority leader, Bob Dole of Kansas, deliberately delayed sending water purification legislation to the White House so that President Ronald Reagan would not have to veto it before the election on Tuesday.

Academics See Bush as Next President

WASHINGTON (NYT) — Vice President George Bush is not very popular among leading political scientists, but they believe he will be elected president after Ronald Reagan in 1988, according to a new survey.

The publication said that interviews with 50 heads of college and university political science departments found that only 5 percent of them would like to see Mr. Bush elected, against 25 percent for Governor Mario Cuomo of New York, a Democrat. Only 50 percent rated Mr. Bush effective or very effective as a leader but 45 percent said they believed Mr. Bush would be elected.

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AMERICAN TOPICS

Truck Drivers

Pass U.S. Test

National standards for licensing commercial bus and truck drivers are set for the first time in U.S. history in the last session of Congress and signed by President Ronald Reagan on Monday.

Individual states will continue to issue licenses. This means the actions of civil libertarians, had objected to a national test. But states will have to comply with standards to be set by the U.S. Department of Transportation requiring better examinations and drivers, or lose a portion of federal highway funds.

Under the bill, drivers can be used in only one state. In the 15 drivers could spread violations, which are noted on licenses, over licenses from several states. This will now be illegal, violations subject to criminal penalties.

He Senate transportation committee said that accidents involving interstate trucks rose 30 percent in 1985, to 30,000 in 1985, 31,628 in 1983. In the same, accidents involving interstate more than tripled, 125,000 to 363,000.

It Takes

Questions from President Bush's book of quotations (Chairman Bush, is selling the "Liar" campaign by the



A GAY POWER MESSAGE — The homosexual community in Chicago has been stamping U.S. currency with "GAY S" as a demonstration of its buying power.

Activists say that millions of dollars have been obtained and that the movement has spread to other cities.

The U.S. Constitution will be 200 years old next year, but the House of Representatives has rejected, 240-130, a proposal to make Sept. 17, the anniversary of the date the constitution was signed, a federal holiday. The cost to government and business of a new holiday was estimated at up to \$1 billion. The United States has 10 national legal holidays, compared, for example, to eight in England and Wales, 10 in France and 12 in Japan.

Two dozen police officers on the night shift in the Bronx, including an inspector, two captains, a lieutenant and eight sergeants, were transferred or retired for habitually sleeping on duty, New York City officials said. Officials denied that some of the policemen were caught in their pajamas.

It Takes

Questions from President Bush's book of quotations (Chairman Bush, is selling the "Liar" campaign by the

N.Y. Times Is Dropping UPI Service

By Eleanor Randolph
Washington Post Staff Writer

WASHINGTON — The New York Times, one of the largest and most prestigious clients of United Press International, has decided to cancel its use of the struggling news service as of Dec. 31, according to officials of the newspaper.

The decision against renewing a contract worth almost \$1 million a year came after Times executives reviewed their use of the news service and determined that "we can better invest our resources in the continued improvement of our own news-gathering network," as James L. Greenfield, an assistant managing editor, said in a note posted Monday in The Times servers.

The decision was seen as a strong blow to UPI, which has annual revenues of about \$75 million.

However, some of the staff and executives at UPI reportedly held out the hope that Times executives were using the cancellation as a negotiating position to force UPI to change its rates at the last minute.

But Mr. Greenfield said Monday that "it is not a negotiating position — this is it."

The president of UPI, Maxwell McCrohon, said, "I have no comment at this time."

Mr. Greenfield said that The Times decided that UPI did not serve the newspaper's needs because it had concentrated primarily on its smaller clients, such as those who use its radio reports, its state-house coverage and weekend feature packages.

He said he did not believe the loss of The New York Times as a client would be a death blow to UPI, which was rescued from bankruptcy when Mario Cuomo, a Democrat, purchased the service for \$41 million this summer.

Others within the journalistic community, however, said they believed that The Times' decision could mean that other news organizations would cancel their contracts with UPI.

"This is very serious stuff," said William Thomas, editor of the Los Angeles Times.

"I think it's a heavy blow to UPI."

"That's bad news for our business," said the executive editor of the Washington Post, Benjamin C. Bradlee.

"We had been hoping that with a little more time UPI would get back to where it once was, as truly effective competition for The Associated Press."

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asts Hit 2 U.S. Bases in Puerto Rico

The Associated Press
JUAN, Puerto Rico — exploded Tuesday at two armed forces facilities, one person, the police said, was killed and five others injured.

The explosions occurred at the San Juan Air Station, a U.S. military base, and at the San Juan Naval Station, a U.S. Navy base. The explosions occurred at the San Juan Air Station, a U.S. military base, and at the San Juan Naval Station, a U.S. Navy base.

condemned the United States for actions against the nationalist movement and for planning to cut ties in El Yunque, the island's tropical forest and park, United Press International reported.

Bombs went off at a U.S. Army recruiting office in Pajardo, about 25 miles (40 kilometers) east of San Juan, and a U.S. Naval Reserve office in Bayamon, near San Juan. Crude bombs were found and destroyed at five other U.S. armed forces facilities, the police said.

Herald Tribune

Published by The New York Times and The Washington Post

For Practical Cooperation

Eleven of the 12 members of the European Community — Greece being the dissent — have proclaimed their "outrage" at the involvement of Syrian government agents in the abortive attempt to blow up an Israeli airliner, as Britain has charged. But, all too predictably, the majority of the ministers meeting in Luxembourg on Monday refused to take the kind of collective punitive action that Sir Geoffrey Howe, the British foreign secretary, proposed. He wanted them to stop arms sales to Syria, suspend economic aid, recall their ambassadors, reduce Syrian embassy staffs, ban ministerial visits and promise to exclude Syrian diplomats expelled from any Community country.

For most of the ministers, the vast majority of these measures would have damaged immediate or long-range national interests. France had to think of its hostages in Lebanon. And countries with an active Middle East policy felt that they could not break their contacts with Syria — which, unlike Libya, is a major regional power — without jeopardizing their interests in other parts of the region. Even the United States has opted for a minimum gesture of solidarity with Britain, withdrawing the American ambassador from Damascus temporarily.

The Luxembourg episode demonstrates once more how agonizingly difficult it is for Europeans, and for Western countries in general, to take concrete concerted action when real or imagined national interests are at stake. This is the case of terrorism. It has also been true in the case of sanctions against South Africa.

Even if they are unable to agree on overt diplomatic and political measures against terrorists, Western governments must cooperate in the practical field of common preventive action — through improved, institutionalized bilateral and multilateral cooperation between police, intelligence organizations and all other services concerned with terrorism.

Now that the summit has failed, it is not clear how much progress has been made. The summit was not a failure, but it was a disappointment. It was a failure because it did not achieve what it set out to do. It was a disappointment because it was a missed opportunity for a more significant achievement.

Other states, especially those which have been targets of international terrorism, have to set decisions and act with courage in supporting the British initiative to bring Syria to book. The European Community would do itself and others a favor by supporting the British initiative to bring Syria to book.

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President Reagan did discuss the elimination of all nuclear weapons, but only as an ultimate goal. He said the world is still left to wonder: On which lofty goal did President Ronald Reagan and General Secretary Mikhail Gorbachev actually agree? The answer matters. First, it seems increasingly clear that Mr. Reagan erred in his optimism. He went there with one set of goals, when in fact, they had been largely bypassed. Just what happened is something that his administration has spent the last two weeks trying to explain. And Mr. Gorbachev, no slouch at scoring points in world opinion, can hardly contain his glee. The second reason why it matters is that all the short-term, dry, abstract leaders' practical promises. Only if the two leaders can now put this backing behind them can that promise be real.

Mr. Reagan and Mr. Gorbachev had not even left behind the divergent statements they had made. Had they discussed the elimination within 10 years of all strategic nuclear arms? Or was it of ballistic missiles? American officials now say ballistic missiles. That would leave the two nations with cruise missiles and bombers, categories in which America has advantages.

Mr. Gorbachev, like some initial U.S. accounts, says that the two leaders agreed to eliminate all strategic nuclear arms. That would make a much more complicated prospect for the United States. While cruise missiles, conventional or chemical warfare, in which the Soviet Union has advantages, would take on great importance.

The most recent U.S. interpretation is that the summit was a failure.

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GENEVA — The experts — some Americans, some and most probably Russians, too — are beginning to reap the wages of cynicism. For almost a decade there have been nuclear armaments, various leaders have toyed with a hopeful policy, offering to wipe out weapons and remove threats. But the fact is that while they argued, the nations were not taken seriously in the back rooms where planning is done. That is why there is such a backlash now against the Reykjavik outcome.

President Reagan, General Secretary Gorbachev came near to agreeing on some of the major principles that have been mounded for so long. Suddenly the planners were faced with the prospect that their assumptions might have to be scrapped and a whole new set of calculations begun almost from scratch. It is not true that the ideas had not been discussed; there were endless sessions within the U.S. administration and consultations with allies about the new topic. Big cuts in big weapons, and so on, as the bureaucrats put it, those were taken as long-range goals to be set aside for some fine day — or, to put it bluntly, as propaganda to appease a worried world.

And imaginative. Still, one does not build a foundation of trust by attempting to entrap the president. Mr. Gorbachev was the victim of overconfidence and of an inadequate understanding of the West. He is a calculating statesman; according to informed Soviet sources, he came to Reykjavik with a fallback plan. He is a calculating statesman; according to informed Soviet sources, he came to Reykjavik with a fallback plan. He is a calculating statesman; according to informed Soviet sources, he came to Reykjavik with a fallback plan.

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President Mitterrand was also given the substance of the letter for his comment. He objected to a part that said that of course France, Britain and Chinese weapons would not be taken into account when the time came to get rid of all missiles. That passage was removed at his request. He did not object to the other proposals that are providing French complaints now, although not from Mr. Mitterrand.

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The Summit Made Progress but Attempted Too Much, Too Soon

WASHINGTON — The spirit of Reykjavik, if it ever existed, did not last long. Mutual confidence of diplomats have delivered a powerful blow to the optimism. One reason for the renewed hostility is the lack of understanding of the West. He is a calculating statesman; according to informed Soviet sources, he came to Reykjavik with a fallback plan.

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A Chance for Democratic Europe to Oppose Terror

STASBOURG, France — For the best part of two decades, individual Western democracies have been struggling against terrorism in their own backyards. Terrorism has been a constant threat to the security of Western democracies. It has been a constant threat to the security of Western democracies. It has been a constant threat to the security of Western democracies.

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It's Time for Africa and Business to Get Together

NAIROBI — At the World Bank, private foundations, a buzzword for Africa these days is "private sector." The push is to get more private enterprise into a region where the state has long dominated the economy. The push is to get more private enterprise into a region where the state has long dominated the economy. The push is to get more private enterprise into a region where the state has long dominated the economy.

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International Herald Tribune, 181 Avenue Charles de Gaulle, 92087 Neuilly-sur-Seine, France.
Tel. (1) 1 212 512 1000. Telex: 467000. Cable: 467000. Fax: 467000. Post Office Box 1000, New York, N.Y. 10108.
Director of the publication: Walter N. Thayer.
18, rue de la République, 5, Courbevoie, France (92) 1.740.740. Tel. RS55092.
Cable: 21 21 21. Telex: 21 21 21. Fax: 21 21 21.
Post: W. Lauerbach, Frankfurt, 13, 6000 Frankfurt, 13, (69) 72003. Tel. (49) 71.
BASTI, Courbevoie, 300, rue de la République, 92087 Neuilly-sur-Seine, France.
Tel. (1) 212 512 1000. Telex: 467000. Cable: 467000. Fax: 467000.
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The Wedge of Drug Corruption

By Joel Brinkley

To inaugurate its centennial

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Bribery: A M

The lack of understanding of our legal system is making the confusion," Mr. Garcia Ramirez said. "The procedure in Mexico is very different than the procedure in the United States. We have no less than 40 people on trial."

Mexican Tradition

on That May Be Fading

Mr. deVillar said he agreed, and other Medians said a key reason he left his post as chief adviser for Mr. de la Madrid's much publicized "moral renovation" campaign was that he did not believe it was aggressive enough.

Mr. del Villar would not comment on the reasons for his resignation, but he did say: "What worries me is the velocity that corruption is accelerating through the government. It's the most serious threat to national security we face. If the government doesn't do something about it, it will destroy our country."

Like others, Mr. del Villar partly blames the

By William Stockton

The names and prices based on the size of the building. It was a large amount, several thousand dollars.

"I told him the money and he came back a few days later with all our papers in order," added "We had a legal building. I don't know if it was for the money or for how much of the money he kept for himself."

Such stories are legion among Mexicans. The *novelas* — literally, the bits — are an integral part of the Mexican mind. The man who has paid a bribe to avoid a traffic ticket, to obtain a needed government document, to spend a night in jail, is a hero.

There is evidence that the government's efforts to rid Mexico of such low-level graft are making headway. In 1982, for example, in Madrid, when he took office in 1982, promised a campaign of "moral renovation."

But corruption involving government officials and businessmen is still rampant. In fact, it now involves illegal drug trafficking to the United States, the issue has become a growing international concern.

In recent decades, every Mexican president

In his six years in office beginning in 1976, President José López Portillo enacted several major anti-corruption laws aimed at increasing government accountability. Several close associates of the president, including his brother, Luis Echeverría, were prosecuted.

Nonetheless, the administration of Mr. López Portillo came to be regarded as modern times' most corrupt. As a result, Mr. de la Madrid made "moral renovation" the cornerstone of his presidential campaign.

Once in office, he took quick action. The head of Mexico's national petroleum monopoly, Pemex, was dismissed. The attorney general, José Díaz Serrano, is in prison in connection with accusations involving a \$34-million fraud in the sale of oil tenders.

Arturo Escobar, Mexico City police chief, Arturo Durazo Moreno, a boyfriend friend of Mr. López Portillo, is on trial in connection with accusations of multimillion-dollar bribery and kickback schemes.

No one knows how extensive the paying of bribes really is. One businessman suggested that the practice is less widespread than many people think.

"We Mexicans are very cynical and we do not want the government and expect the worst from it," he said. "We are ready to believe that every government employee is corrupt."

At part of the campaign, Mr. de la Madrid, who has created the comptroller general's office, which has taken more than 4,500 government employees to court on corruption charges since 1983, said:

"About 100,000 high-level government employees have to live normal lives. They are examined by computers and are examined only if the computer systems, to detect unusual situations."

Robles Segura, deputy director of the comptroller general's office, attributes a sharp decline in the number of prosecutions this year to the success of the campaign. "We think it is because the government is cleaning itself up," he said.

United States for the spread of corruption because of "the great export of American narcotics to the United States."

Behind his statements and those of most officials in the Mexican government is the conviction that the United States is a victim in the drug business. From the Mexican point of view the country's entire anti-drug program is a great favor to the United States.

"We have no drug users in this country," a senior Mexican law enforcement official said. "The number of heroin users in this country can be counted on the fingers of one hand."

A new U.S. State Department report says Mexico remains the chief foreign supplier of narcotics to the United States.

However, Mexico's defense minister, General Juan Arreola Garduqui, asserted in September that the United States is the main source of Mexico's drug problem. "It is the demand, and also ignorance of the law. The campesinos do not know it is illegal."

TOMORROW: The governing party's hold on Mexican political life.

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The Visionary Codebreaker

with sketchily written characters existing only to bring out the various aspects of Turing's nature.

Yet this is not a crusading piece; Whitmore leaves us to our own conclusions about the kind of man who could crack everything but his own nature, and in the jigsaw of his play are most of the clues we need, while Clifford Williams's production is suitably brisk and spare.

apple after the police had

At the *Lyric on Shaftesbury* playing in a series of special matinees (one matinee a day), the monologues about *Libellus* and *Libellus* and *Lyric* put together from Hellman's autobiographies, notably "Pentimento" and "Second Time 'Round." Set in 1961 at the New York City hospital where she was waiting by the bedside of her dying husband, Hammett, "Libellus" takes us chronologically through Hellman's life from his New Orleans beginnings ("heavy weather hung over my childhood") to her first theatrical appearance before the McCarty committee in the early 1950s ("I cannot and will not cut my own conscience to suit this nation's fashion"). In "Pentimento," Hellman tells us how she works every word, what she does and dreams it makes up in stories about F. Scott Fitzgerald and Hemingway and Hollywood's Normandy Invasion. "Second Time 'Round" is a meditation on "the thought," and through it all there burns the intensity of Hellman's determination to stand alone.

At the Barbican, "Scenes From a Marriage" is a sequence of three short farces by Georges Feydeau adapted by Peter Barnes, who has



Joanna David and Derek Jacobi in "Breaking the Code."

linked them together by having the two principal characters from one play, a bespectacled dentist and his overbearing wife, go forward as the principals in two other acid sketches of married life. We are not, however, seeing the plays in the chronological order of their writing, nor as the self-contained and separate scripts Feydeau wrote, and the central problem with putting them together in this arrangement is that we start to look for some sort of development in character or change of tone that could only exist had Feydeau meant his plays to be

The next problem is that all three plays are French farces, which might work well enough on a small studio stage such as the Pit, but on the main Barbican stage they manage to get totally lost within a vast

chamber where four female saxophonists play during scenes and scene changes. This too is counter-productive: The more you marvel at the intricate mechanics of the set, the more you enjoy the music of the fairer sex, the more you wonder about the lengths to which the director, Terry Handa, has gone to make this evening hang together.

The plays were written between 1908 and 1916, shortly before Feydeau was taken to the sanatorium where he began sending out invitations to his coronation as Napoleon III, and it is therefore not surpris-

ing that the first play we see, though the last he wrote, should be characterized by a manic frenzy as the benighted dentist takes out his marital despair on his unfortunate patients. Trevor Peacock and Janet Dale rapidly manage to establish that *this* is a marriage owing more to Strindberg than the more cheery boulevard liaisons of Feydeau's full-length farces, but once that point as been made there is

little more for them to do but carry it forward to the second play, an infinitely feeble piece about a phantom pregnancy.

Here Miriam Karlin and Peter Jones turn up as a formidable greedy midwife and a card-sharping uncle, who alone seem to have realized that the less they do the funnier they are. In the last and best of the plays, the husband comes home from an arts ball disguised as the Sun King only to discover that his mother-in-law, or at any rate someone's mother-in-law, has died during the night. But

by now Resnick and Lurie have had two plays in which to outline their loathing of each other, so there is nowhere to go but back into a rerun of arguments already heard. We end up with three leaden farces, virulently anti-marriage and especially anti-women, played out by a company that seems to have lost faith in its ability to make them work in an arena several times too large for the jokes.

By Andrew Clark

VIENNA—As a statement of intentions, the new production of "Un Ballo in Maschera" does not paint a very fresh or enticing picture of what can be expected at the State Opera in the next few years.

The appointment of the experienced Claus Helmuth Drese as the new director, and his imaginative and his quick-witted invitation to Claudio Abbado to join him as music director, promises much. But if they are to deliver they cannot afford to continue on the kind of safe and overfamiliar artistic path this first staging of the new era follows.

To be fair, there were some distinguished individual contributions, not least from Abbado himself, whose ability to pierce the musico-dramatic heart of this work has been well-documented since the 1967 Milan production. His intakes here were all the more acute for being interpreted with the supple strength of the Vienna Philharmonic, which brought immense dignity and force to the swiftly alternating pages of irony and doom-laden fantasy in Verdi's score.

The stage performance was dominated — almost embarrassingly so — by Luciano Pavarotti and Piero Cappuccini, who, like Abbado, have large enough personalities to fill the house. On this showing, Cappuccini's voice is maintaining its range and security remarkably well, even though the tone has thinned. He still insists on stepping out of character to acknowledge applause, a pity when he plays Renzo's modesty-turned-to-anger so convincingly. Riccardo always was Pavarotti's best Verdi role, the graceful tenor writing highlighted by his fiction, legato and absolute dependability in matters of pitch and top range. Amid all the hype surrounding his appearances, it is a

The staging — if one can call it that — was described as the "original version" and was attributed to Gianfranco de Bosio, who has had some success directing Rossini operas in Italy. No hidden truth about "Ballo" is exposed by changing the imaginary Boston setting accepted by the paper critics for the opera's premiere in Rome in 1859, to the late-18th-century royal court at Stockholm as originally planned. Verdi himself subsequently seemed content with the Boston setting — the plot had, in any case, gone well beyond historical authenticity in the course of its development as an operatic libretto — and most modern productions choose an alternative, fashionable Swedish alternative plot further than changing the opera's name to *Gustavo*. This starline was no exception.

Emanuele Luzzati's hodgepodge of period overdecoration offered the kind of quaint pictorial background that must have been standard for touring productions in the good old days. It was anonymous and largely irrelevant. The vacuum



left by de Bosio in terms of stage direction was most keenly felt in the chorus scenes and in the absent characterization of Ulrica and Oscar. This left the two main performers, Pavarotti and Cappuccelli, to address the audience in much the same way as they would anywhere

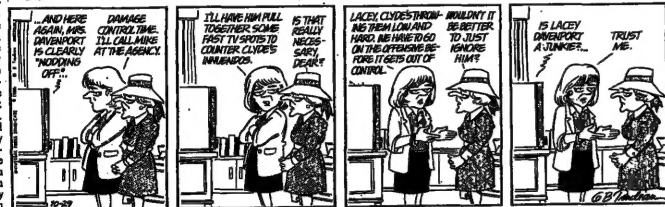
Even those who long for an old-fashioned singers' production are likely to have reservations about this "Ballo," especially when it has to stand such close comparison with the other Verdi opera Abbado is currently conducting at the State Opera — the famous production of "Simon Boccanegra" staged by Giorgio Strehler at the height of Abbado's regime at La Scala, which has now been brought to Vienna with an outstanding cast.

Further performances of "Un Ballo in Maschera" Oct. 29 and Nov. 1, and again during the Vienna Festival next May and June. "Simon Boccanegra" Oct. 31.

Andrew Clark is a journalist and music critic based in Switzerland.



Luciano Pavarotti in the Vienna "Ballo in Maschera."

DOONESBURY

But did it really need a new production to put these individual contributions into perspective? The old staging — in which, incidentally, Cappuccelli first appeared 20 years ago — would have done just as well, and would have had the additional benefit of taking pressure off the young Austrian soprano Gabrielle Lechner, who was given her big chance by the sudden withdrawal of Margaret Price after the opening night. Lechner's Amelia was too unsophisticated and underpowered to pass as anything more than a plucky try in these circum-

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was studying a possible restructuring of the corporation designed to enhance shareholder value.

[illegible]

* Source: Media Scanner '84

[illegible]

(Continued on Page 16)

Austerity in the Netherlands

THE NEWS

21: Lubbers Coalition

Has Majority
After-right coalition of Prime Minister Lubbers scores a victory in the general election, retaining its majority in the parliament. His Christian Democratic Party emerged from the election as the single party in Parliament, winning 54 seats, nine more than in the 1982 election. The opposition Labor party, which had signed against the government's policy and its decision to deploy cruise missiles won five seats.

e 30s Netherlands

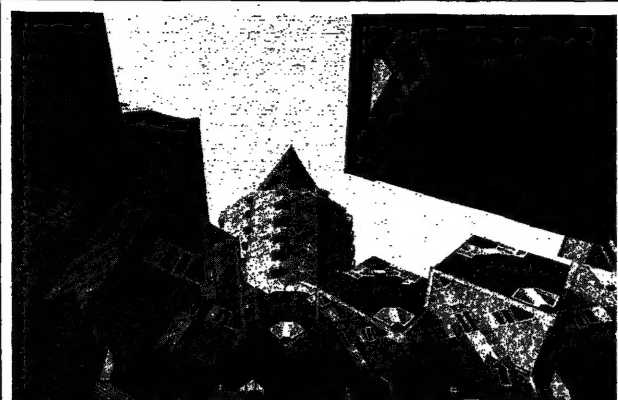
is Eureka Program
Dutch participate in the signing of a program of 65 projects designed to use European high technology links. Under the program, first proposed last year, the government will provide companies with grants for their research programs from their national budget.

y 14s Cabinet Sworn In

or Lengthy Talks
The cabinet is sworn in after almost a month of negotiations between Mr. van Lubbers and the Liberal Party. The cabinet that delayed the formation of the government centered on the question of the role of the central bank in the economy, with the cabinet Christian Democrats trying less severe measures than the Liberal Party.

L 4s Queen Inaugurates

ut Sea Barrier
The queen inaugurates the technology most advanced sea barrier yet built in the Netherlands. Stretching across 2.4 miles, the \$2.4 billion Oosterschelde dam employs advanced hydraulic engineering that has been in the planning for 30 years. The 62-gate dam in the southwestern part of the country is designed to virtually eliminate the recurrence of the 1953 storm in which 1,835 lives were lost and 15 of the Netherlands' agricultural areas destroyed in the highest tide in recorded history.



A New View of the Future

New buildings in the center of Rotterdam are but one example of Dutch innovation and openness. The Netherlands, which has long been counted among the most progressive and forward-looking societies in Europe, is

now, however, taking stock of the progress made since the 1960s and is accelerating its plans for trimming a welfare system — one of the most all-encompassing in the West — that many agree was stretched too far.

Carving Into the Welfare State

By Steven J. Dryden

THE HAGUE — After several years of tinkering with the Netherlands' exceptionally generous welfare system, the Dutch government is now getting ready to move from the fast to the fudge.

STEVEN J. DRYDEN covered the European Community from Brussels for the International Herald Tribune. He is now based in Washington.

Beginning in January, the government will undertake a fundamental reform of the system that will reduce social benefits such as unemployment and disability insurance, and restrict eligibility. Significant cuts in spending on the comprehensive state health care structure are also planned.

While these changes will hardly be popular, the time is opportune: Prime Minister Ruud Lubbers' newly re-elected center-right coalition will not face another poll for four years. But the government also has little choice since falling revenue from natural gas promises to press the budget for years to

come. In addition, an unusually high unemployment rate, which has soared to 16 percent, shows no sign of coming down to more normal levels, placing additional long-term strains on the welfare system.

Looming above these considerations, however, is a basic assumption that Mr. Lubbers' government has followed since first taking office in 1982 — that the cost of the Netherlands' welfare had become too big a burden for the country to bear, even in times of economic health. On this point,

Continued on page 12

Belt-Tightening

As Revenues Fall, Taxes Go Up Again

By Bridget Phillips

THE HAGUE — For the past three decades, gas revenues have been the key to the health of the Dutch economy. As income from the huge natural gas fields rose, the role of the state ballooned into one of the most all-encompassing welfare systems in the West. But revenues are sharply down now and the government is faced with agonizing cuts to ensure the ailing economy.

Since 1982, the government has dropped its budget deficit from 12 percent of net national income by reducing and freezing civil servants' salaries, trimming the size of the public sector and tightening rules for social welfare. That will not be enough, though, to compensate for a plunge of gas revenues from 14 percent of the budget this year to only 7.2 percent in 1987. The government has decided to match its own spending cuts with the first tax increases in three years. Even so, the deficit will actually increase slightly to 8.1 percent of national income next year.

The government has resorted to tax increases after acknowledging the setbacks industry has faced under one of the highest rates of taxation and social welfare contributions in the Western world. The tax increase worries employers who foresee only a slight increase in production next year, although there has been a steady and, the Economics Ministry says, "spectacular" increase in business investments over the past four years.

According to VNO, the federation of Dutch industry, employers may resist tax increases but generally support the government's austerity program in the face of the dual problem of fallen gas revenues and the expense of high unemployment, which has hovered around 14 percent.

"We went through a long period where government policy was oriented to people and to developing a new social structure," said Ciel

BRIDGET PHILLIPS is a journalist based in Paris.

van Vulpen, director general of VNO. "I'm not sure it is a period of which we should be totally proud. It was very difficult to afford, and we finally realized that in order to pay for it, we would have to go back along some of the roads we had taken."

The latest budget marked the first time in 30 years that the government actually reduced the amount of public spending from one year to the next. Finance Minister Onno Ruding said in presenting the budget that for too long "Dutch society has been pampered, living in irresponsible dependence on revenues from natural gas."

Gas fields that were developed mainly in the northeastern part of the Netherlands helped sustain almost uninterrupted economic growth from postwar reconstruction through the 1960s.

The sharp increase in energy prices through the 1970s accentuated the increase in wealth and filled government coffers. Out of the natural gas windfall emerged a new, more interventionist role for the government and a social security system that almost matched Sweden's in scope and expense.

"It was a system that was designed in the 1960s so that those who could not naturally share the wealth of society could nonetheless be included through government assistance," said Gerrit Zalm, director of economic affairs at the Economics Ministry. "It was designed on the premise that very few people would need social assistance and we should have a very large benefit for those who did."

By the early 1980s, the system designed for a very few was supporting mushrooming numbers of unemployed, disabled and claimants under many other social welfare programs. The system was stretched both by the impact of world recession and by the design of the system itself, which encouraged people to accept government help rather than work.

Unemployment benefits, for example, matched the minimum wage, and disability entitles the claimant to lifelong support at 80 percent of his last wage, no matter how, or how

Continued on page 10

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Government Woos Foreign Investors

Despite a tough government austerity plan and calls for lower subsidies to business, foreign investment in the non-energy sector continues to grow.

By Sonja Mooradlin

AMSTERDAM — The recent collapse in oil prices made the Dutch realize that their great hope, gas, was not going to provide their economy with the impetus for growth they had been counting on. Plans for new investments in energy projects have been scrapped. So now, to avoid economic contraction resulting from a shrinking gas sector, the government is making an all-out effort to attract new foreign investment in the non-energy sector.

Direct new foreign investment in the Netherlands in 1985 fell to half of that recorded in the previous two years and this year the decline probably will continue. Yet the decrease does not warrant the conclusion that foreign companies outside the energy sector have forsaken the Netherlands. Quite the contrary.

Despite a tough government austerity plan and widespread calls for lower subsidies to business, foreign corporate investment in the non-energy sector of the Dutch economy actually continues to grow and in a modest way is diversifying the Dutch economy.

The net decline in new foreign investment was caused in large part by the completion of several major gas projects and the cancellation of others. Also, major U.S. oil companies that were involved in the merger waves in the United States met their needs for liquid assets by repatriating funds from other countries, including the Netherlands.

Now, other businesses are picking up the slack left by the oil companies. For the Dutch, with one of the highest unemployment rates in the industrial world, the number of jobs creat-

ed by foreign investment is probably more important to the country than the amount invested.

The Economics Ministry has estimated that new foreign investment in the Netherlands this year will create 2,000 jobs; a perhaps more interesting figure may be the number of jobs that will be created by foreign companies already operational here.

Rene S. Buck, director of Buck Consultants International, advisers to companies considering investing in Europe, said a survey done early this year showed that of the U.S. concerns in the Netherlands that were interviewed, 50 percent expected to create a total of 5,000 jobs through new investments by the end of the year.

The industries receiving the major flow of foreign investment are machinery, computers and the services sector. The Economics Ministry is particularly interested in attracting computer and biotechnology companies. In the last year, it has managed to lure two biotechnology companies, Cetecon and Molecular Co., which have put up 50 million guilders (\$22.2 million) toward a joint venture with state-owned DSM to manufacture and market aspartame (the generic name of G.D. Searle's NutraSweet).

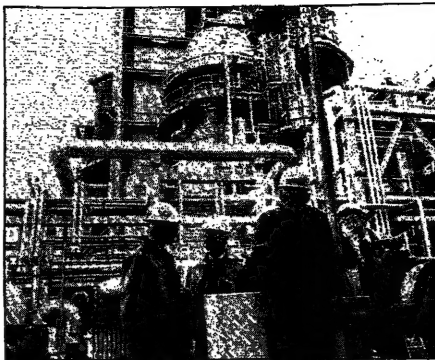
One of the reasons the government is working so hard to attract these businesses is because it sees foreign investment as the lifeline to future economic growth as the country's important natural gas reserves dwindle later in the century. In industry alone, 15 percent of Dutch jobs are supplied by foreign companies.

The importance of attracting foreign investment can be seen in the government's recent austerity budget. In an effort to cut costs and bureaucracy, the government has trimmed jobs in all its departments, with the exception of the Economic Ministry's Commission for Foreign Investment. The government also retained its controversial tax incentive program despite a widespread call for its demise.

Corporate income tax was reduced to 42 percent from 43 percent as of Jan. 1, and the government has been lowering employees' social security contributions consistently over the last couple of years. These measures, combined with nominal wage increases, have helped corporate profitability, Dutch officials say.

The Netherlands is even willing to engage in risk-capital investments through semi-governmental venture-capital agencies such as the MIP (Corporation for Industrial Projects) equity fund. One source tells of how the MIP entered a joint venture with a U.S. biotechnology company after the Irish Development Agency, considered Europe's most aggressive and successful, rejected the same company on the grounds that the risk was too high.

With its small home market a major drawback to manufacturing companies, the Netherlands has had to emphasize its more advantageous points, such as its geographical position as a distribution point, combined with a well-developed infrastructure, making the European Community market easily accessible.



Safety inspection at start-up of Esso installation at Rotterdam.

The government has had some success in its campaign. In August 1984, Japan's Fuji Photo Film started production of black and white photographic film at its new Tilburg factory, near Eindhoven. The 300-million guilders investment was the biggest new manufacturing facility the country had seen in some years, and is Fuji's only manufacturing unit outside of Japan.

Meanwhile, Mr. Buck has criticized the government for not doing enough to encourage the re-investment of foreign subsidiaries' earnings, a potentially large source of foreign investment. In his "Survey of Current Business" published in August, the U.S. Commerce Department recorded an increase in reinvested earnings of U.S. subsidiaries operating in the Netherlands from 7.6 percent of total earnings in 1984 to 62.7 percent in 1985. While some officials use this as a selling point for the Netherlands, it should be noted that the figure

includes a major investment by Esso Nederland, the Dutch subsidiary of Esso.

In September, Esso completed a new five-story building in Rotterdam at a cost of 62.6 billion guilders, the largest single investment ever undertaken by a private enterprise in the Netherlands and financed by local earnings.

In the chemicals sector, the Netherlands led Europe in investment in 1985 with a growth of 30 percent, accounted for mostly by expansion of current facilities of the three West German chemical majors and the Dutch chemical group Akzo. While no figures are available, one can assume that most of the money reinvested came from local profits.

But with these major projects now completed, the government will have to offer more incentives for the smaller companies to keep their money here.

SONJA MOORADLIN is the Netherlands correspondent for Business International.

Part-Time Work Confuses Job Issue

By Alan Tillier

THE HAGUE — The protester who scrawled "We want more" outside the Ministry of Social Affairs here obviously was unmoved by the conclusions of international experts, among them the Organization for Economic Cooperation and Development, that social security and other benefits in the Netherlands are among the most generous of all OECD countries.

The government is cutting back on benefits, but it does have a formal spending program for reducing unemployment from about 700,000 to a maximum of half a million by 1990.

There is a continuing debate in the Netherlands as to the appropriate number of unemployed part-time jobs. It is becoming more and more difficult to talk of the working population or the unemployed.

A senior civil servant put the question this way: "Is someone who works two days a week, but who wants to work five, employed or not?" The step rise in part-time jobs in recent years (at least 174,000 in the 1981-1985 period) cuts across the policy debate of how to create 200,000 jobs for the current unemployed and 250,000 for youths up to 1990.

The problem areas in unemployment are the 400,000 long-term (more than one year) jobless among the 700,000 total, the 100,000 youths under 25 who have been out of work for more than one year and the problem of pupils who quit school.

Prime Minister Ruud Lubbers has promised new policies. He is trying to cut the size of the public sector (the government is by far the biggest employer) and aid the private sector to expand and take on more people. It is hoped that this will lead to a drop of 50,000 in the number of unemployed next year and provide jobs for 60,000 to 65,000 newcomers.

All sides seem to agree that there is no choice but to continue the expansion of part-time jobs, but the Ministry of Social Affairs is trying to create jobs that are sufficiently interesting to motivate the young to move out of the welfare offices.

Whereas it is hoped that sustained economic growth will take care of most of the unemployment, the government has come up with a Youth Work Guarantee Plan that offers unemployed youths under 21 a guarantee of either work or schooling.

Wages under this plan have been raised above unemployment benefits. Some of the better jobs will pay 660 guilders a month (\$330) against 764 guilders on the normal market for 18-year-olds. These jobs will be concentrated in the central and local government sectors and in the various subsidized sectors.

Two other programs are based on wage subsidies: the Job Plan, which consists of subsidizing 30 percent of wages earned to employers, who do not technically employ the young person (this is to be spread nationwide after an encouraging start in medium-sized cities), and the updating of the earlier Labor Party program, the Vermeend-Moort program, which solves employers from social charges.

Both these programs are aimed at those who have been unemployed two to three years. In addition, hours are being shortened and early retirement encouraged. The message is that economic recovery and jobs depend on an extension of the wage moderation which improved the situation between 1982 and 1986.

However, Wouter Verwoerd, an economic writer, says that many employers consider minimum wage rates still too high for them to take on substantially more workers.

But the economy at the moment is creating jobs and the economic indicators, such as profitability and exports, are good. Thus, the long-term solution to unemployment is visible.

ALAN TILLIER, a journalist based in Paris, is a regular contributor to The Sunday Times of London.

As Revenues Fall, Taxes Go Up

Continued from page 9

badly, he was disabled. The Netherlands still has the highest number in the West of claimants on disability support, an estimated 15 percent of the work force, plus another 10 percent who claim sick benefits. A quarter of the population of Amsterdam lives on state benefits.

At the same time as the demand for help exploded, the government was quickly losing the revenues to pay for its welfare programs. Along with the collapse of the gas market, tax

pressure and social insurance premiums reached peak levels that could not be pushed any higher to make up more revenue.

"It became absolutely impossible to finance our public expenditures anymore," said Mr. Zalm. "So the government elected in 1982 introduced a very harsh program of cuts. In a country with strong feelings of equality and social justice, this marked a huge change of policy."

There were nominal cuts in social welfare payments, the floor was lowered on minimum benefits, eligibility for many programs in the social welfare program were tightened. Those first drastic measures to curb the growth of public spending have been followed by freeze.

Along with cutting social insurance spending, salaries of civil servants were reduced by 3 percent in the 1983-1984 budget and have been frozen since then.

Over the next four years, the government plans to cut 20,000 jobs from the public sector, including a 6-percent reduction in 1987. The austerity program allowed the government to give in to the pleas of the private sector and reduce levels of social insurance contributions for both employers and employees.

"In a society like ours, it has been absolutely remarkable what has been achieved in cutting back on government over a relatively short period," said Mr. van Velsen of the Federation of industries.

But almost as important for retreating the private sector, the government has reversed the tendency in the Netherlands to increase the role of the public sector.

"The government will energetically pursue deregulation," the Economics Ministry announced in a statement on this year's budget.

The government has initiated changes to make it easier for employers to lay off workers, a move that without any actual increase

employment since the lengthy firing procedures often discouraged employers from taking on new staff in periods of expansion.

It is working to streamline regulations in areas such as physical planning and environmental protection. The government has also abandoned its role of fixing wage increases, leaving unions and employers to negotiate freely.

The result has been strong new industrial investment, up 8 percent this year and 30 percent since 1982. Profits that were squeezed by high taxes, social insurance charges and steady wage increases were restored by the government's new measures as well as by the impact of an improving world economy.

After sharp philosophical opposition to some of the early cutting measures, Dutch employers, unions and voters generally accept the need for government cutbacks. But there is still some disagreement on the formula for making these cuts.

The social welfare system was used as an income redistribution program that many consider must be maintained to prevent wide divergence between rich and poor. The government argues that there is still less than a 20-percent difference between the average wage and the minimum wage.

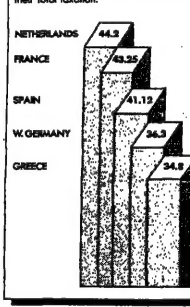
"It is still about the smallest differential in the Western world, and there is general agreement that it is not unjust to allow that difference to grow," said Mr. Zalm of the Economics Ministry. "By 1990, we will still have the most equal income distribution in the world; it will just be less equal than it was in 1982."

Unions and the opposition Labor Party worry that spending cuts will endanger investments in the future, such as housing and education, that will make a smaller deficit today but have a negative impact in the long run.

They also argue that much of the cutting to date has been done relatively painlessly be-

The Cost of Security

The Dutch pay the highest social security contributions in Europe as a percentage of their total labor cost.



Source: OECD

cause of civil service salaries and social welfare payments were falling, so was inflation. The government professes the inflation rate will be negative this year although other analysts are less optimistic.

"When inflation goes up, there will be an unacceptable real loss of purchasing power," said Hans Krombrink, financial spokesman for the Labor Party. "This society will not accept that lower-income groups keep getting worse. It is an issue that in the Netherlands concerns not just the poor, but all groups of society on a moral level. The cutting will have to stop."

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Political Issues

Lubbers: Belief in 'Pragmatic' Policies

By Friso Endt

ROTTERDAM — "A new cooperation is growing" among Europeans, politically, economically and militarily, Rijkman Groenendaal, the Dutch prime minister, has affirmed.

In a recent interview, Mr. Groenendaal, 48, who came to office last May, said that "Europe is on the way" and "its political and economic climate changing in a positive way."

He added that Europe "today stands equal to the United States" in terms of economic power, which is no longer "an American phenomenon."

He credited in part the "pragmatic" policies of his coalition, which has been called the no-nonsense cabinet of a no-nonsense prime minister. It introduced a severe belt-tightening program four years ago in an effort to slash an unemployment rate of 15 percent and a budget deficit of nearly 12 percent of national income.

The austerity measures successfully brought down unemployment to about 12 percent and the budget deficit to 7.5 percent. And these results brought Mr. Groenendaal, his Christian Democratic Party and their coalition partners, the conservative Liberal Party, their election victory in May over the Labor opposition.

This victory, Mr. Groenendaal says, gave him the chance to run his coalition for another four years, "to finish the job" with more belt-tightening measures as Queen Beatrix announced Sept. 16 at the opening of parliament.

He said that these "pragmatic" policies are

Excerpts of Interview

Defense: "There is a new tree coming up in Europe. It is called cooperation in European defense. In the early 1960s, the whole system collapsed with France walking out of NATO and so on. But slowly and without much publicity, a new cooperation is growing."

Government: "I am proud to be called a no-nonsense prime minister of a no-nonsense cabinet. But this is not a Dutch affair at all. In my opinion, most of the European prime ministers and/or government leaders are pragmatic and of the no-nonsense type."

Birthrate: "Holland's birthrate goes up. In my opinion this means that people are happy and have more confidence in the future."

not a uniquely Dutch affair but are being carried out throughout Europe. The government leaders in Belgium, West Germany, France, Spain, Portugal and Italy, he said, are equally "pragmatic and of the no-nonsense type."

"The no-nonsense policies have led to a greater European growth," Mr. Groenendaal said. "It is not anymore only the *différentiel* and its frustrations, but it is Europe's own policy of getting things done."

He added that this was very different from the United States, "where the Reagan administration had to restore the nation's self-confidence."

The prime minister made these key points in his interview.

Austerity: He noted that, while the price of the austerity program "is rather high at the moment," Belgium has enacted stiffer measures and Denmark earlier implemented a tougher program than the Dutch.

He said that four years ago the Dutch had to adjust their "extremely high rate of government expenditures."

"The high expenditures caused a high figure of the budget deficit. In this respect, we are equalizing the budget deficit figure of the United States. But one has to take into account that we Dutch have an extremely high savings-surplus, much higher than, for instance, the United States," Mr. Groenendaal said.

Export capital: He said that the Netherlands is exporting capital at a rate of about 3 percent of the gross national product. This compares "to the United States which is importing capital at the same rate or even more."

European integration: Mr. Groenendaal saw a positive evolution in moves for greater economic integration within the European Community and a definite change in the European political climate. He cited, in particular, cooperation on defense matters, such as the increase in military ties between France and West Germany.

"This cooperation, he said, has come 'slowly and without publicity' following the collapse of European defense in the early 1960s when France quit the North Atlantic Treaty Organization's military command structure."

"Europe is on the move," he said. "We are on our long march toward 1992, a calendar of integration, and I expect we will be almost on schedule by the end of the year."

Internationally, he underscored the "pragmatic and important role" that Europe is playing in the Middle East and in its "efforts to moderate U.S. policy."

Mr. Groenendaal acknowledged, however, that more could be done concerning South Africa's



Prime Minister Rijkman Groenendaal

problems, where, "we have not been performing too well."

Soviet relations: The prime minister said that "we shall listen very carefully" when he and his foreign minister meet with Soviet officials at the end of next month in Moscow, where they will present Dutch and NATO views on problems between East and West.

He noted, however, that "there is a certain development of getting to business from both sides," and he called this "a significant improvement."

He added, "But indeed, it is still very fragile."

The future: Mr. Groenendaal was optimistic about his country's outlook for the future.

"Holland's birthrate goes up. In my opinion this means that people are happy and have more confidence in the future," he said.

FRISO ENDT: a journalist based in Rotterdam, contributes to *Nieuwweek*, *Le Figaro* and a business newsletter in the Netherlands.

Kok: Consolidating and Re-orienting the Opposition

By Alan Tibbels

THE HAGUE — Labor Party leader Wim Kok noted at the time of the U.S. Soviet summit in Iceland that the sting had gone out of the Dutch debate over cruise missiles on Dutch soil.

"Defense is no longer a big issue," Mr. Kok said. Instead, he is concentrating his fire on Prime Minister Rijkman Groenendaal's program for economic growth, new technology, education, income distribution and unemployment.

Mr. Kok, 47, has been leader of the opposition for barely five months, but he is one of the best-known men in the Netherlands and one who is widely respected on both sides of the political divide.

He headed the Netherlands' largest trade union organization, the FNV, for more than a decade up to September last year, when he switched to full-time politics for the first time. He won a seat for the Labor Party in the May general elections and, in July, was elected chairman of the parliamentary group as successor to the veteran former leader and former prime minister, Joop den Uyl.

The party gained five seats in the elections

but this was not enough to prevent a victory by the Christian Democrats and their rightist partners.

Mr. Groenendaal may be the most popular prime minister since Willem Drees, who introduced old-age pensions before World War II, but he is going to face a strong challenge over the next four years from Mr. Kok.

Both men are cool, collected, articulate and courteous. Nel Slik, a Dutch journalist, commented: "The Netherlands has rarely had two such able men running the two largest parties."

Mr. Kok, who graduated from Nijmegen, the country's leading business school, learned a lot in two decades of dealing with labor-management relations as chairman of the 40-million-member European Trade Union Confederation and as a member of a recent European Community study group on the effect of new technology on employment.

He drafted a report for the Labor Party outlining likely problems that would be posed by a projected 25-hour work week. However, now that he is running the party, Mr. Kok says pragmatically that this should be linked first to the achievement of a 36-hour work week.

Mr. Kok can become passionate about what

he sees as dangerous cutbacks in spending on education by the Groenendaal government and the lack of training and job programs for the young. "There are not enough social and cultural activities in the towns to bring together the young unemployed who are outside the normal work situation," he said. "Some 100,000 of the unemployed under 25 had been out of work for more than a year. The economy has been creating jobs but not for them."

With the young and other unemployed being left on the sidelines, Mr. Kok sees the danger of what he calls "the two-thirds society." Yet he admits that his party has "to improve the quality of our alternatives," particularly in its attitude to technology.

It is not yet clear whether Mr. Kok will become as good a politician as he was union negotiator. As part of his consolidation campaign, he is doing a lot of listening and paying attention to the demands of small groups. He thinks Mr. Groenendaal, with whom he has good personal relations, could be leading for trouble when he presents his policies to teachers' school boards, parent organizations, local communities and trade unions.

"He constantly uses the word consensus, but it is a one-way consensus," he said of his

opponent, whom he got to know when he was a union negotiator and Mr. Groenendaal was economics minister in a Den Uyl-led coalition government in the 1970s.

Mr. Kok, at first view, seems a moderate opposition leader. He says he generally accepts the size of the government's 1987 budget package, which limits government expenditure and, to a degree, rolls back the welfare state. He agrees with the government that 1987, with the inflation rate down, could be good in overall economic terms and that unemployment, now at 700,000, could be "deated."

Aside from the level of public investment and the sums allocated for education, there are specific Dutch issues that will claim his attention, notably income distribution. The Dutch minimum wage of close to 2,000 guilders (\$909) a month before taxes is high in European terms, and income differences are smaller than elsewhere in the EC.

Mr. Kok says Dutchmen should be proud of this, but adds that the differences are widening.

Beyond a reference to the need for a minimum deterrent, Mr. Kok hardly brings up the question of defense. He seems more preoccupied with the future shape of social democracy

in Europe and "how close the left will be to the center."

Recently, he told a meeting of Nordic Socialists: "Socialists and Social-Democratic parties in Europe and the labor movement are re-orienting themselves... economic developments make it necessary to look for new policies... new types of employees are becoming more widespread: well-educated, well-informed, more pragmatic than ideologically motivated."

"Relationships between management and labor are taking on a different character. Not only because a growing number of members of the work force within large organizations are confronted with new types of organizations, but also because the differences between management and personnel on the work floor are not as large as they used to be. This increases the need for consultation and worker involvement."

Mr. Kok says he wants to offer a new perspective to his party's traditional supporters — "the lower-income groups and the less-well educated" — but he wants also to win over new types of workers, entrepreneurs and the younger generation... an appeal based on the attraction of a European movement.



Wim Kok

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A farm near Amsterdam; farm products account for one-quarter of Dutch exports.

Farmers Adjust to 'Lean Years'

By Frank De Jong

THE HAGUE — Fresh out of flowers from almost daily to New York, and Gouda and Edam cheese sent to remote areas of the world are but two examples of the entrepreneurial spirit of Dutch farmers and market gardeners.

The Dutch have traditionally held a leading position in the West European farming world and farm products account for one-quarter of all Dutch exports.

Nevertheless, the roughly 140,000 farmers in the Netherlands are fully aware that their golden days are over. Like most farmers in Europe, they will have to cut production severely following decades of continuous growth in which the advantages of membership in the European Community were used to their fullest. At the same time, the number of farming enterprises has diminished by 60,000, although experts agree that a further reduction, at least in terms of numbers, is unlikely.

Dutch farmers are plagued by two major problems: the surplus production of dairy products and a king-size measure "bump" caused by pig breeders and poultry farmers.

The European Community faces a budget of more than one million tons. It is estimated that the Dutch share in this butter mountain, which is in cold storage warehouses in and outside the community, amounts to 300,000 tons, even though Dutch dairy exporters are still in marketing their products abroad.

Six years ago, when the excess butter stored in these warehouses had reached more than 800,000 tons, European farmers, including the Dutch, realized that drastic measures were necessary if only because storage was costing EC taxpayers huge sums of money. Nevertheless, it took four years of deliberation before the EC farm ministers agreed on a new quota system whereby a super levy would be imposed for milk production above a fixed limit.

For awhile, Dutch dairy farmers jealously eyed their Irish colleagues, who were initially granted some leeway in meeting the quotas and were allowed increases in milk production. But soon they realized that they would have dug their own financial grave if they had continued their high production levels.

As compared with 1983, Dutch milk production has been cut by 9.5 percent, amounting to 12.5 million tons. This year, an extra 3 percent to 4 percent must be cut, and next year at least 2 percent of the remaining production level must be trimmed.

During the past 25 years, livestock figures increased steadily from 3.5 million head of cattle in 1960 to 5.2 million in 1983. During the same period, the number of dairy cows rose from 1.6 million to 2.3 million at an average of 41 cows per farm.

Many dairy farmers now run fully computerized farms. The computers determine the supply of feed per single cow, with each cow wearing its own coded transponder signal for the computer. This high-tech system, according to Gerrit Brink, the minister of agriculture and fisheries, might eventually lead to a pro-

duction of 10,000 liters of milk per cow by around the year 2000. At present, an annual milk yield of 5,000 liters per cow is the rule.

Pig breeders as well have expanded significantly. From 1970 to 1983, the number of pigs more than doubled, rising from 2.5 million to 12.3 million animals. In the same period, the number of laying hens rose from 24 million to more than 44 million, and that of broilers from 30 million to 88 million.

Both pig breeders and poultry farmers produce 18 million tons of manure, as against 70 million tons a year by Dutch cows and calves, according to the Ministry of Agriculture and Fisheries.

The pig and poultry slurry, in particular, has been causing major problems for the environment, and the government has enacted measures to try to control manure disposal, including compulsory membership in manure banks for farmers.

Although many dairy farmers feel the squeeze of the super levy on excess milk production, others claim that this levy was actually a "boon in disguise," because it prompted them to run their farms more economically. Many have tried to improve their farming methods and have experimented with growing horticultural products on a substrate of rock wool and by "inventing" novel, but edible, vegetables and fruits.

FRANK DE JONG, a journalist based in The Hague, contributes to the *London Daily Express* and *Dagens Nyheter*, a leading Swedish daily.

Manure: Environmental Headache

By Sue Armstrong

THE HAGUE — The green fields and grazing cattle of the southern Netherlands give an impression of traditional farming life. But all is not what it seems, for the farmers' most important activities are not in the fields but in the huge modern buildings standing row upon row behind the farmhouses.

In them are well-to-do chickens and pigs being fattened for the dining tables of Europe as fast as science knows how. But animals will be animals in spite of science. As well as the European Community meat glut, they have also been producing a mountain of manure for which the Netherlands is rapidly running out of space for its safe disposal.

In 1985, the total production of animal manure from Dutch farms was 98.5 million tons, of which 57 million tons was all the land could safely absorb, according to Dolf Logemann of the Society for Nature and Environmental Protection, a government-funded conservation group. (The Ministry of Agriculture and Fisheries puts the total amount of manure produced at 88 million tons.)

About 40 million tons, therefore, were polluting the country's air, ground and water.

Siebe Algra, an ecologist with the Society for Nature and Environmental Protection, was one of the first to sound the alarm. In a report published in 1971, he drew attention to the harmful effects of intensive farming, particularly of pigs and chickens.

The dumping of vast quantities of manure from the rows of sheds where these chickens and pigs are being raised, he predicted, would poison the soil and water with the compounds and minerals contained in their manure.

Little heed was taken of his warning until Theo Jansen, a forester in the pig and poultry belt, noticed that vegetation in the area was stunted or destroyed. He said that this was caused not by the sulphurous smoke of factories, but by the ammonia "pumped out of animal-shed ventilation systems."

Scientists have recently confirmed his theory, although the exact reaction of plants to ammonia is not fully understood.

Radically, the farmers themselves are now admitting the connection. They feel particu-

Ammonia seeping into groundwater sets off chemical reactions.

ly vulnerable at a time of government austerity and fear that they will have to bear much of the cost of remedying the situation.

While many plants and trees can tolerate ammonia concentrations of up to 44 pounds (20 kilograms) per 2.5 acres (one hectare) per year, as much as 220 pounds a year is being deposited in some areas, and 55 pounds to 66 pounds per 2.5 acres over the country as a whole.

The government estimates that the cost of cutting total ammonia emissions from the present level of 140,000 tons a year to 65,000 tons a year by 1999 would be at least 7 billion guilders (\$3.18 billion).

As ammonia from the air is washed into the soil by rain, it is converted into nitrate. In small, controlled quantities, this nitrate is an asset. In high concentrations, however, it can be disastrous. Taken into the human body in drinking water, it affects the uptake of oxygen in the blood.

Concentrations of nitrates three to six times higher than permissible have been found in drinking water and has led to the closure of some private wells.

Amonia seeping through the soil into groundwater also sets off chemical reactions that free toxic elements, such as aluminum, from otherwise harmless compounds. To these are added heavy metals, such as copper, cadmium and zinc, that are additives in animal feed. Cadmium, one of the deadliest heavy metals, is a trace element in the Moroccan phosphate ore that is mined in feed to retain water and speed fattening. Copper is added because it makes for more efficient digestion of other food, and 99 percent of it is excreted.

Ecologists say, however, that the metals are not readily washed into groundwater and are not yet a problem in the water system, al-

though they believe they will be in a few years. But the metals are already destroying the soil structure.

In 1984, temporary legislation was enacted to limit the growth of this so-called factory farming of chickens and pigs. This measure, however, will be removed on Jan. 1.

It is to be replaced by laws limiting, in three stages, the amount of manure that can be spread on the land, taking into account the different grades of land and the phosphate levels in the manure. In December 1988, the farmers must submit figures of manure production to the Ministry of Agriculture and Fisheries, and this will guide policy on dumping.

After Jan. 1, farmers must also deliver their excess manure to one of four regional manure banks, paying the cost of transport themselves. The banks will then distribute the manure to remote areas of the Netherlands. Farmers can be fined for dumping over the limits.

A law prohibiting the dumping of manure when the ground is frozen in winter — because huge concentrations of pollutants build up and get carried into the groundwater as soon as the thaw comes — will not come into effect until 1988.

Following protests, the government has ruled out dumping in the North Sea.

Environmentalists want laws prohibiting the spraying of manure in hot weather when ammonia is most easily released, and also the compulsory introduction of machinery that will inject it below the topsoil rather than spreading it over the ground.

Meanwhile, scientists are trying to develop an astronaut-type diet for pigs that will produce minimum waste.

SUE ARMSTRONG is a Brussels-based journalist.

Carving Into the Welfare State

Continued from page 9

ever the opposition Labor Party has limited to agree.

Still, there are disagreements over how the Netherlands should cut its budget. Under new regulations, for example, unmarried individuals who live together will no longer be able to claim separate unemployment benefits (which would give them 140 percent of their former earnings), but be restricted to the 100-percent limit that applies to married couples.

Nevertheless, Ms. ter Veld said, many in the Labor Party

"It's alright for me because I'm not married and don't have any children," she said. "But I don't think that the government exists to protect taxpayers."

In one sense at least, the government is showing little indulgence to single young people. Under new regulations, for example, unmarried individuals who live together will no longer be able to claim separate unemployment benefits (which would give them 140 percent of their former earnings), but be restricted to the 100-percent limit that applies to married couples.

Nevertheless, Ms. ter Veld said, many in the Labor Party

feel that the changes under way will transform the Netherlands into a country like the United States, where, she implied, poor people receive inadequate government aid.

"More and more people are saying, 'We don't want to go to a situation like the United States, where you have to have food stamps.' We want people to participate in the society," she said.

Yet, Ms. ter Veld said, if Labor were in the government, it might spend only a little more than the current coalition plans, and there would still be a need for some cuts in such areas as health care.

What Labor would try to avoid

would be placing the burden of the reduction on those who are dependent on the state.

While the new government policies did not produce a dramatic change in the social structure, long-term implications are already clear, according to Adrian Kolman, an economist at Tilburg University. "The gap between wages in the market sector and unemployment is getting larger and will keep getting larger."

But the government believes it must find a way, in the words of Mr. Lubbers, to get more people back "inside the system of production."

Social welfare spending peaked in 1983, when it reached 34.9 percent of the gross national product. Cuts already made by the Lubbers government have reduced social payments by more than 3 percent in real terms; the goal is to get social spending down to 26.1 percent of GNP by 1990.

The policy changes to be introduced next year include a reduction in unemployment benefits from 80 percent of a jobless person's wage to 70 percent, which will then be gradually reduced to the minimum wage, which in 1986 was 25,000 guilders a year; a cut in disability benefits from 80 percent of the former wage to 70 percent, and to qualify for the benefits, an individual must demonstrate that he has lost 45 percent of his abilities, rather than the 25 percent under the old system.

Overall, the government is aiming to cut social security spending by 12 billion guilders (\$5.45 million) in 1987. Other moves are also planned that will affect social policy in one way or another. Kindergartens will begin at five years of age rather than at four, thus reducing the form of free day care for families in which both parents work.

In the health-care area, the 1987 budget calls for reductions of 600 million guilders, or part of 12 billion guilders in cutsbacks to be made over the next four years.

Government health planners are already studying the implications of the upcoming cutbacks, and they see the greatest impact on care for the elderly.

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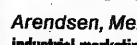
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By Vivian Lewis

AMSTERDAM — At Pierson, Hedding & Pierson, the largest of new London competition was played down by board member Erik Bedaerts van der Meer. "After all," he remarked, "the 'Big Bang' began in Amsterdam 300 years ago."

It, international rivalry is forcing reforms in business is done at the Amsterdam Exchange, one of the oldest exchanges in the world. A series of laws this year has allowed more of new trading vehicles, above all value certificates of deposit, commercial floating rate notes and "bullet" government bonds.

(Bullet loans are repaid all at once, usually after having a sinking fund being callable before that. An institution issues callable bonds because it can be repaid and then has to find a new home for the money. Since the reform, most of the bonds of the Dutch government have been so.)

pierson Bank Nederland and foreign banks like Morgan and Credit Lyonnais have been the lead in issuing commercial paper in the Netherlands, changes are they would be done in other markets. Nor can dealers be kept out of the Dutch market. "The dice isn't high enough," said J. Heiko van der Meer, "they will get over."

talency, negotiated commissions on off-block trades under the Amsterdam Professional Market System (AIMS) have allowed since May for deals involving more than 1 million guilders in shares or 3.5 million guilders in bonds. A further cut in transaction costs will come only in 1987, when government reduces its stamp duty for

block trades, applicable to Dutch but not foreign brokers.

Dutch banks for two years had been losing business trading some bonds and stocks to London, where brokers could buy Dutch blocks without paying commissions (as professionals) and then resell them at prices the Dutch fixed-commission traders could not match without violating stock exchange rules.

But because Dutch banks like ABN often "act as market makers or counter-parties, they can do not trades more easily than foreign banks," now that they are allowed to, Mr. Geurtsma points out.

Dutch institutional investors are not abandoning other markets just because Dutch commission rates are coming down. According to the manager of a major company's pension fund: "We have used London to buy and sell and we will use it again. However, we do prefer the Amsterdam Beurs (stock exchange). London brokers lack the knowledge of stock exchange positions of large institutions that Dutch banks have. So, it is harder for them to find a counterpart, too." Another problem with overseas dealing in Dutch paper, in this investor's view, is "the potential liquidity problem."

"Under conditions of a bull market in Dutch shares like we have had in recent years, London has not been tested," he said.

In May, the government finally cracked down on "bucket shops" and "share grabbers" who preyed on international investors out of Amsterdam with offers of all-but-unmarketable securities. The new law limits securities dealing out of the Netherlands to quoted stocks in Dutch or regulated foreign exchanges from the United States, Switzerland and European Community countries. In addition, brokers operating in the Netherlands must belong to one of these stock exchanges or apply for a license, which Dutch authorities are refusing to give to the "share grabbers."

Progress is not as rapid in cracking down on abuses by Dutch operators who prey on Dutch investors. Insider trading is currently subject to feeble sanctions under stock-exchange board guidelines. The board has virtually no investigative power and cannot impose criminal penalties.

There is no barrier in Dutch banks between

leading operations and stock market operations.

The stock exchange authorities are trying to broaden share ownership. The government plans shortly to introduce legislation outlawing insider dealing and setting criminal penalties for violations.

But there are other stock exchange problems

the Dutch are less likely to resolve in the near future. One is settlement. While new instruments like certificates of deposit are settled through international systems like Euroclear and Codel, clearing classic Dutch issues is left to the stock exchange. Its independent and undercapitalized *afrekeners*, intermediaries similar to specialists in U.S. markets, or job-



Activity at the stock exchange in Amsterdam.

bers in Britain, try to collect extra money for transactions by delaying settlement.

"The system is devised to finance the *boekmans*, who are always the last ones in the queue to pay and the first to be paid," said Jan Vroegop, executive vice president of Amsterdam-Rotterdam Bank. "Fifteen years ago, it was logical to work this way but now we need an international system."

Settlement terms and continued application of fixed standard commissions on non-ADRS trades are being examined by the EC Commission to determine if they violate competition as a restrictive trading practice. (The Dutch do not have an antitrust law of their own.)

But Dutch bankers feel that the likelihood of discount brokerage coming to Amsterdam has been exaggerated. "New York had a discount after negotiated commissions came in. We don't want that here, because Dutch people don't like *bankroepen*," said John H. Thirion, assistant to the chairman of the exchange.

Mr. Bedaerts van Blokdien believes that if commission-cutting came to small trades in Amsterdam, "we would react by making other services more expensive, including services taken for granted like research, current account facilities, settlement."

So far, even foreign newcomers have not broken the rule on commission-cutting. The numerous new arrivals note the attractions of the Amsterdam market: the stock exchange,

the European Options Exchange (which trades only options on Dutch stocks, bonds and currencies), the gold options market, the soon-to-be-formed futures market.

Foreign banks have tended to be quicker off the mark than the ponderous Dutch institutions in the race to invent new instruments. Morgan had the first large negotiable commercial paper issue (for Delta Lloyd) and the first longer one- and two-year options on shares of Royal Dutch-Shell. Called *FASCONS*, for fixed-term agreement on short-term call options on Netherlands Securities, these instruments have not been very well placed. But the Delta Lloyd issue was a success. "It took four minutes to sell the whole thing," according to Morgan's Tom Gardiner.

The Morgan investor of *FASCONS* and brokers as Kooymans and the Robeco mutual fund, who created long options on a Dutch government bond, called *SAISCONS*, were launched in October, when the Amsterdam European Options Exchange began offering the world's only five-year options, on four Dutch stocks: Bank, Unilever, Philips and Akzo.

VIVIAN LEWIS, a Paris-based financial journalist, is a regular contributor to *The Banker* and the *International Organizations Monitoring Service*.

Lower Interest Rates, Securities Buoy Profits

AMSTERDAM — The securities business and the fall in interest rates have paved the way for a banner year for Dutch banks.

But the banks will have to be innovative in order to maintain their profitability, because of the danger of a rise in interest rates and global competition for their securities business. In particular, the "Big Bang" in London has triggered adjustments in Amsterdam commissions and fees on block trades.

Dutch banks operate both as commercial banks, taking deposits and making loans, and as securities dealers. All the major banks, for example, act as stockbrokers and are members of the Amsterdam Beurs, or stock exchange. They also can do underwriting and portfolio management. Some of their lending business is also security-related, such as lending against securities.

Since they are not required by law to specialize in deposit-taking and money-lending, Dutch banks have been able to compensate for the lack of demand for classic loans from Dutch borrowers and for the growth of new investment vehicles that rival the bank pass-book as the place to put spare cash.

Being universal banks, the Dutch institutions have a broader base than those of the United States or Japan, which, by law, cannot deal in securities. So, while balance sheet totals, which reflect classic bank business, have failed to rise or have even fallen, profits at almost every Dutch bank are up because of securities and business in a period of rising stock, option and bond markets. Banks trade for and advise clients, including Dutch and foreign institutions, run mutual funds and underwrite bond or share issues.

Then, too, the fall in interest rates helps banks make money. Because there are delays in adjusting the interest rates they can charge to the interest rates they must pay, bank profits fall when interest rates rise. In periods like the beginning of this year, when interest rates are falling, however, the delay tends to increase bank profits. But in the current uncertainty about the future trend of interest rates, banks engaging in pure loan business are more at risk than the security-dealing Dutch banks.

To enable the banks to better fill their securities role, there have been a number of changes in the rules, above all, for block trades. Above 1 million guilders (\$455,000), the government will, from 1987, no longer charge additional stamp duty, which will cost a maximum of 12,000 guilders up to that level. In May, fixed commissions were abolished for off-floor big deals — over 1 million guilders — allowing Amsterdam to match the terms other banking centers offer. The new rules also allow issues of commercial paper and certificates of deposit without stamp duty being payable.

These changes are aimed at helping Dutch banks in their international scramble for institutional business. Just maintaining the loyalty of the large Dutch investors, the pension funds, was difficult in the past before the Dutch began to negotiate commissions. Now, because

of the changes, they have increased their profits, especially on these security operations.

Algemeene Bank Nederland remains the largest Dutch bank, after it increased first-half net profits by 8.3 percent to 248 million guilders. But its total balance sheet came to 148.7 billion guilders, a rise of 4.5 percent from end-1985 levels, barely higher than end-1984 levels. According to J. Heiko Geurtsma, chief general manager, "it was security business and syndications that contributed most to profit increase" at ABN.

Amsterdam Rotterdam Bank reported a 28-percent rise in first-half net profits to 181 million guilders, the result of a 13-percent rise in commission income and a 68-percent rise in "other income," which, to AmRok, means the results of foreign branches, equity participations and security trading.

Unlike most of its rivals, the more international AmRok suffered a decline in balance sheet totals in the first six months of 1986 (to 131.6 billion guilders) because of the fall in the dollar.

The trend is even more marked at the subsidiaries emphasizing investment banking. Mees & Hope, the subsidiary of ABN, reported net profits up 14.3 percent, to 16.6 million guilders. The AmRok subsidiary, Pierson, Hedding & Pierson, reported net profits of 32.6 million guilders. Again, it was commission income from securities and investment operations as well as from the merchant banking division that sustained the growth.

CREDIT Lyonnais Bank Nederland reported an increase in first-half profits, up 5.3 percent to just under 46 million guilders, although its balance sheet total declined by 1 percent to 15.94 billion guilders. Its Rabobank group first-half net profits were up 4 percent, to 546 million guilders. Its consolidated balance sheet rose 5 percent from end-1985 levels to 138.3 billion guilders.

Nederlandsche Middelenhandel's first-half net profits rose 30 percent from 1985 levels, to 46 million guilders, on a total balance sheet gain of 71 billion guilders.

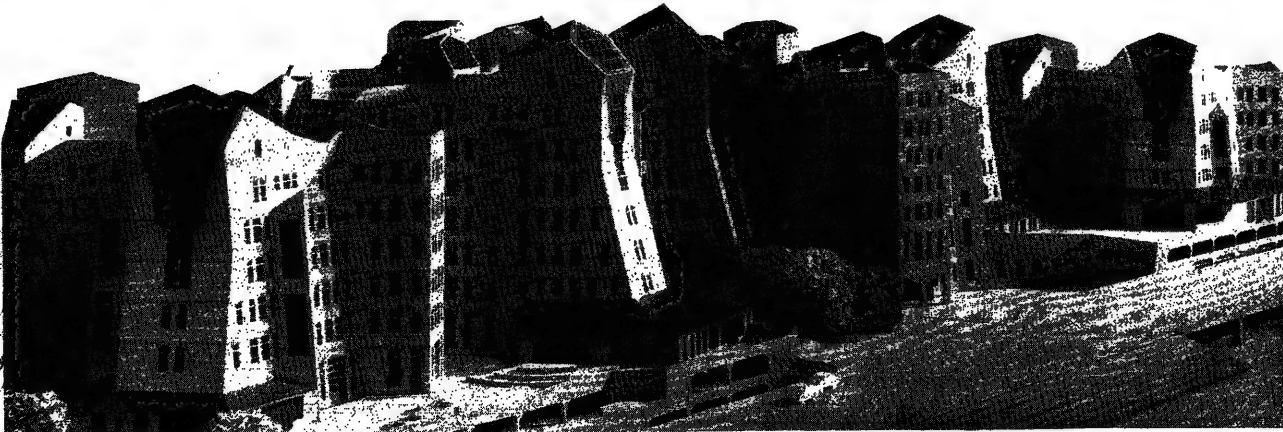
Westland/Utrecht Hypotheekbank, a mortgage specialist rather than a universal bank, reported first-half profits of 38 percent to 1.7 million guilders, although it wrote more mortgages, 295 million guilders worth, in the first half, compared to 267 million guilders at the end of 1985, and although it raised more money, mostly from the money market rather than from direct deposits.

Nationale-Nederlanden, the insurance group that controls WUJ, had to provide a guarantee on both outstanding and future non-subordinated refinancing of WUJ. It also had to subscribe a capital increase.

To keep up with and hedge interest rate movements, Dutch banks, like those elsewhere, increasingly want to consider alternative sources and uses of funds.

Vivian Lewis

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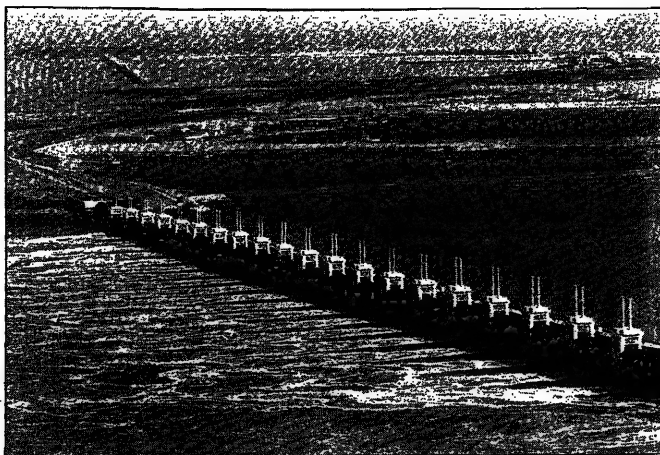
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Under construction for 33 years, the storm barrier designed to protect Zeeland went into operation this month.

Battle Against the Rising Sea

ROTTERDAM — The Netherlands is one of the few countries in the world where one can sail on a river or a canal and watch the traffic on land go by 25 feet below. It is a phenomenon confirmed in the name of the country.

That, of course, is also the reason why water has always been friend and foe to the Dutch. It is a love-hate relationship that forced them to struggle against the sea and to win the battle by turning the sea into land. At the same time, the Dutch benefited from the sea and the advantages of a geographical situation at the estuaries of the Rhine and Meuse.

On Oct. 4, Queen Beatrix pushed a button, dropping a row of steel barriers on the coastline and technologically most advanced storm barrier the Dutch have ever erected. It was the closing triumph of 33 years of hydraulic engineering to safeguard the land behind the dikes in Zeeland, the Netherlands' lowest-lying province in the southwest of the country.

The Delta project, as it is called, has dammed off four of six estuaries, leaving open the gateways to Rotterdam, the world's busiest port, and the access to the Belgian port of Antwerp. Three of these sea arms were closed off with concrete dikes. By 1975, the last big job had to be done, the closing of the Eastern Scheldt River. The solution is a storm barrier that will

be kept open except for emergencies, when 62 steel doors can be closed.

The cost of this last "world miracle," as the Dutch transport and public works minister, Neelke Sanne Kroes, called it, was \$2.4 billion, bringing the total outlay for the Delta project to about \$6 billion.

When the queen inaugurated the storm-surge barrier, she said, "And now Zeeland is safe."

Is it? The Dutch would not be Dutch if they did not try to get the very best answer to that question.

When the government engineers initiated the Delta project after the big flood disaster in 1953, the answer to the question was yes, this was the answer to taming the sea.

But today, the answer is not so clear. That, in any case, is the opinion of Professor E. Prins, the general director of the Hydraulic Laboratory, where all the Delta dams, storm-surge and dikes have been probed and tested, from Delft University.

In early September, Professor Prins organized a conference with 15 hydraulic experts from around the world to discuss the impact of an expected rise in sea levels in the coming decades as a result of a general warming of the atmosphere.

They concluded: "A sea level rise of between 0.50 meters [20 inches] and one meter is likely to occur within the next 100 years, between 1986 and 2086. This will be caused by the thermal expansion of ocean waters due to heating of the atmosphere, also called the greenhouse effect. This process has been started in the surface ocean layers and will continue for decades even if all emissions of all carbon dioxide would be stopped today."

Their other findings:

- The sea level has risen 0.1 meters to 0.15 meters in the last century.

- The projected global warming may cause substantial rises: a 0.5-meter rise could occur in the next 50 years, a 0.5 to 2-meter rise by 2100 and a 5-meter rise in the next 200 to 500 years.

- These rises would inundate wetlands and lowlands, accelerate coastal erosion, increase the risk of floods and increase salt water levels in groundwater, rivers, bays and farmlands. These rises could damage port facilities and coastal structures, destroy quality farmland, disrupt fisheries and bird habitats, diminish storm buffer protection and destroy recreational beaches.

Friso Endt

Gas Bubble Bursts, Forcing Cuts In Spending for Social Welfare

By Friso Endt

KLAASWAAL — For many years, money was to the Dutch one big, wonderful present from heaven, hidden beneath the green grass of the northern province of Groningen.

There, in the early 1960s, the Dutch discovered they had an enormous bubble of gas, the biggest in Europe.

In the good years of the 1960s and the even better years of the 1970s, it financed one of the most sophisticated social welfare systems in Europe.

The Dutch agreed with the oil companies Shell and Esso, which are exploiting the gas fields, to tie the price of natural gas to that of oil. Consequently, when the Organization of Petroleum Exporting Countries increased the price of oil after 1973, the Dutch, like the Norwegians, went along.

But their huge gas reserves gave the Dutch an unrealistic feeling about welfare spending. Since last year, when the center-right government of Prime Minister Ruud Lubbers, faced with decreasing production in the gas fields, announced a belt-tightening program, they have had to confront the cold facts of reality. The situation became even worse this year when oil prices began to fall.

In her speech from the throne in September, Queen Beatrix said: "In 1987, gas revenues will fall by more than 12 billion guilders, a figure that corresponds to 8 percent of state revenues."

The necessity of making provisions for such a large decline, which is likely to be permanent, has placed the government in an extremely difficult position. If no measures are taken, its deficit will rise to more than 11 percent of last year's national income.

That would be unacceptable. The government has, therefore, decided that the deficit should be no more than 8 percent.

Yet, sales of Nederlandse Gasunie, the state gas distribution company, set a record in 1985, reaching 34.3 billion guilders (\$15.6 billion). Gas exports to France, West Germany, Belgium and Italy were 15.3 billion guilders against 13.5 billion guilders in 1984.

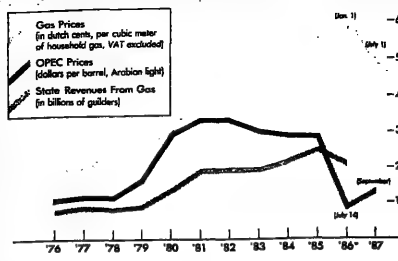
In the Netherlands in 1985, Gasunie sold 42.9 billion cubic meters (about 1.5 trillion cubic feet) of gas. Exports rose to 36.7 billion cubic meters against 33.7 billion cubic meters in 1984.

The amount that foreign customers — France, West Germany, Italy and Belgium — pay the Dutch per cubic meter has never been revealed.

"I won't tell you," said A.F.P. Groen, the director of Gasunie, in his office in Groningen. But he did reveal that last year Gasunie signed new contracts with its European customers. In the negotiations for these agreements, the Dutch managed to compel the export prices to the world prices of domestic fuel oil and heavy fuel oil. Formerly, the price of heavy fuel oil was the only reference.

Gas Revenues: The Middle East Connection

Closely tied to oil price fluctuations, Dutch gas prices are falling with the oil market crash, precipitating a steep drop in state revenues.



*Rotterdam Spot Market. Source: Review of Dutch State Finances 1986, OPEC Annual Statistical Bulletin, Groningen.

This change was due to the dramatic increase in the share of the public gas supply, or gas for household users, in the markets abroad. Since domestic fuel is the cheapest alternative fuel for the home consumer, this has to be taken into account in pricing. In the new contracts, a better price was also negotiated because of the flexibility offered by the Dutch to their customers, allowing them to vary their gas intake according to market fluctuations.

Gasunie transports the gas via a system of transmission pipelines to gas distribution, power stations and large industrial customers in the Netherlands and to customers abroad. In the early days, it was assumed that the Netherlands was assured of a good supply of gas for many years. But at the same time, nuclear energy was expected to grow rapidly and its cost to be eventually highly competitive with that of the traditional fossil fuels, such as oil and coal. It was thought, therefore, that part of the natural gas supplies could become unstable in the long term.

GASUNIE has estimated that total sales in the Netherlands and abroad in the period between 1986 and 2011 will be 1,533 billion cubic meters. A little over 60 percent of this would go to Dutch consumers and 38 percent, or 595 billion cubic meters, abroad.

Mr. Groen said the Dutch position had improved over the last few years because proven reserves were larger than expected and because sales were lower due to the economic recession and to continued energy saving both at home and abroad.

To understand the background to Dutch gas exports it is necessary to go back to the 1960s. When the huge reserves of natural gas were first discovered in Groningen.

The Netherlands then had to decide what to do with the gas. In 1963, Gasunie was set up to purchase gas from various production companies, mainly Shell and Esso, but also Placid Oil, Philips Petroleum and others.

This is also true of the place of natural gas in the energy market of Europe.



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